OVERVIEW

We are an integrated pharmaceutical company principally engaged in the research, manufacturing and sale of modern Chinese medicines and medical contrast medium in the PRC. According to SMERI Report, our key product, uremic clearance granule, is a leading modern Chinese medicine for treating kidney disease in the PRC. It has consistently ranked first in the market of oral modern Chinese medicines for kidney disease in the PRC from 2008 to 2012 in terms of retail sales, commanding a market share of 24.1% in 2012. It has also consistently ranked among the top three in the market of kidney medicines in the PRC from 2008 to 2012 in terms of retail sales. Our other key product, gadopentetate dimeglumine injection, was ranked third in the market of MRI medical contrast medium in the PRC in 2012 in terms of retail sales, commanding a market share of 17.1%, according to SMERI Report.

We launched our uremic clearance granule in 1998, which was the first modern Chinese medicine for treating chronic kidney failure in the PRC. Our uremic clearance granule is listed in the National List of Essential Medicines and the National Medical Insurance Medicines Catalogue, and benefits from the Provisional Measures on the Administration of the National List of Essential Medicines (國家基本藥物目錄管理辦法(暫行)) and Provisional Measures for the Administration of the Scope of Basic Medical Insurance Coverage for Pharmaceutical Products for Urban Workers (城鎮職工基本醫療保險用藥範圍管理暫行辦法), respectively. The production technique of our uremic clearance granule was patented by SIPO in October 2006 and our uremic clearance granule has been recognised as a class two national Chinese medicine protection type by the CFDA from December 2000 to December 2014 in accordance with the Chinese Medicine Type Protection Law (中藥品種保護條例) promulgated by the State Council of the PRC. Uremic clearance granule is based on the traditional Chinese medicine theory that promotes integrality and syndrome differentiation in order to treat chronic kidney failure. It was proved to have the effect of slowing down the worsening of chronic kidney failure, postponing the need to start the dialysis process and reducing the risk of complications. For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, sales of uremic clearance granule represented approximately 76.5%, 77.4%, 75.9% and 74.9% of our turnover, respectively.

Our other key product, gadopentetate dimeglumine injection, is a medical contrast medium used for magnetic resonance image formation. We were the first pharmaceutical company which obtained the New Medicine Certificate and production approval for a MRI medical contrast medium in the PRC to fill the gap in market of the MRI medical contrast medium in the PRC at the time. Our gadopentetate dimeglumine injection has been registered by CFDA as a class two new chemical medicine under the Registration Measures. Since 1998, our gadopentetate dimeglumine injection has increased the contrast definition of MRI and the rate of nidus detection. For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, sales of gadopentetate dimeglumine injection represented approximately 14.3%, 13.3%, 14.3% and 17.7% of our turnover, respectively.

In addition to our kidney medicines and medical contrast medium, we also offer a wide range of other medicines, including both prescription medicines and OTC medicines. These medicines are used for treating various diseases, including malnutrition and hypoproteinemia, chronic anemia, and seasonal or perennial allergic rhinitis. As of the Latest Practicable Date, we manufactured and sold a total of 11 different medicines, including four modern Chinese medicines and seven chemical medicines. Two of the 11 medicines, including our uremic clearance granule, were also listed in the National List of Essential Medicines and six of the 11 medicines, including uremic clearance granule and gadopentetate dimeglumine injection, were listed in the National Medical Insurance Medicines Catalogue. In addition, our uremic clearance granule was also listed in the Military Reasonable Medical Treatment Medicines Catalogue.

We have established our own research and development laboratory for kidney medicines in 2006, which was awarded by the government of Inner Mongolia autonomous region as a "Research and Development Centre of Enterprises in Inner Mongolia Autonomous Region" (內蒙古自治區企業研發中心) in November 2012. Our dedicated in-house research and development team comprised 60 research personnel as of 30 June 2013, of whom four hold doctorate degree or master's degree in pharmaceutical related areas, and more than half of our research personnel have over ten years of experience in the PRC pharmaceutical industry. We have also formed collaborations with various research institutions, hospitals and universities in the PRC to jointly develop new pharmaceutical products, applications of existing products, product formulation, production methods or techniques and benefit from their expertise, skills, resources and knowledge in these areas. As of the Latest Practicable Date, we had seven product candidates in various stages of development.

Leveraging on our research and development capabilities and the academic background of members of our marketing team, we adopt a marketing strategy which focuses on sharing of specialist knowledge with medical practitioners. By sharing specialist knowledge and information, we aim to enrich and update medical practitioners' knowledge of our specialist medicines and other information on relevant therapeutic areas. As of 30 June 2013, our marketing team comprised over 550 dedicated marketing representatives, the majority of whom have professional background in medical, pharmaceutical, marketing or other related areas. As of 30 June 2013, we had established 31 liaison points covering 30 provinces, autonomous regions, and municipality cities across the PRC. Such liaison points enable our marketing team to provide immediate marketing services and support to our customers. As pharmaceutical products generally require a higher level of customer knowledge than ordinary consumer goods, and in particular, as our key products are prescription medicines, we consider that sharing specialist knowledge and information of our medicines with medical practitioners in hospitals, medical institutions and pharmacies and collecting their feedbacks are essential in promoting our products. By doing so, we aim to enrich and update medical practitioners' knowledge of our specialist medicines and other information on relevant therapeutic areas. Through such interaction, we directly market and promote our kidney medicines and medical contrast medium to hospitals, medical institutions and pharmacies. In addition, to achieve deep market penetration in a more effective manner, we engage Independent Third Party distributors to distribute our kidney medicines and medical contrast medium. These third party distributors are GSP certified corporations and have extensive geographic distribution network with strong logistics support. They are only responsible for reselling and distributing our products to hospitals, medical institutions and pharmacies either directly or indirectly through other sub-distributors. As of 30 June 2013, we had 175 third party distributors. This distribution arrangement enables us to focus our resources in research and development, manufacturing, and marketing of our products, as we do not need to maintain an extensive GSP certified distribution network with logistics coverage at our own expenses.

Our comprehensive production facilities comprised 13 production lines of injection, granules, tablets, pills, capsules and oral solution, which enable us to enjoy production flexibility by allowing us to produce pharmaceutical products in different forms to meet the market demands. Our production lines are housed in three self-owned production plants located in Guangzhou, Guangdong province and Tongliao, Inner Mongolia autonomous region, all of which have obtained GMP certifications. Our two production plants in Tongliao, Inner Mongolia autonomous region, are strategically located to benefit from the close proximity of the plantation bases of the key Chinese herbs for our production in order to facilitate the delivery and supply of raw materials and thereby reducing the production cost. We intend to expand our production capacity and enhance our production capability according to market demand.

As of the Latest Practicable Date, five of our 11 current pharmaceutical products, including our uremic clearance granule and our gadopentetate dimeglumine injection, were subject to retail price controls imposed by the PRC government in the form of maximum retail prices. As a result, these products cannot be sold above their prescribed retail prices. Since April 2010, our uremic clearance granule has enjoyed differentiated pricing treatment (差別定價) in Guangdong province as approved by Guangdong Pricing Bureau, whereby a higher maximum retail price of our uremic clearance granule can be set for Guangdong province and the pharmaceutical products procurement office in Guangdong province (廣東省醫藥採購中心) is allowed to adjust upward our successful bidding price. Such treatment indirectly allows us to increase the wholesale price of our uremic clearance granule at which we sell to our third party distributors in Guangdong province.

Our turnover experienced consistent growth during the Track Record Period mainly due to the increased sales of our uremic clearance granule and gadopentetate dimeglumine injection. For the three years ended 31 December 2010, 2011 and 2012, our turnover were RMB303.7 million, RMB389.3 million, RMB457.8 million, respectively, representing a CAGR of 22.8% over the period. For the same periods, our profit were RMB79.3 million, RMB107.3 million and RMB136.2 million, respectively, representing a CAGR of 31.1%. For the six months ended 30 June 2012 and 2013, our turnover were RMB181.9 million and RMB228.4 million, respectively, representing an increase of 25.5%. For the same periods, our profit were RMB60.1 million and RMB59.1 million, respectively, representing a slight decrease of 1.7%.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and distinguish us from our competitors:

Leading position in the market of oral modern Chinese medicines for kidney disease in the PRC

According to SMERI Report, in 2010 the awareness rate of chronic kidney disease was only 12.5%. Chronic kidney disease is divided into five stages of increasing severity. Patients with chronic kidney disease at the second to fifth stages are classified as having chronic kidney failure. Those patients whose chronic kidney disease are at the fifth stage normally require dialysis therapy or kidney transplantation. It was estimated that during 2007 to 2010 there were over 56.8 million people in the PRC who had chronic kidney disease at the second to fifth stages. According to SMERI Report, the market size of modern Chinese medicines for kidney disease in the PRC was RMB2.6 billion in 2012 and is estimated at RMB5.9 billion in 2017, and the market size of oral modern Chinese medicines for kidney disease in the PRC was 2.0 billion in 2012 and is estimated at RMB4.5 billion in 2017.

Our uremic clearance granule was the first modern Chinese medicine for treating chronic kidney failure in the PRC. A solid patient base for our uremic clearance granule was established throughout the 15 years of market use and 25 years of clinical studies. The production technique of our uremic clearance granule was patented by the SIPO in October 2006 and our uremic clearance granule has been recognised as a class two national Chinese medicine protection type by the CFDA from December 2000 to December 2014 in accordance with the Chinese Medicine Type Protection Law promulgated by the State Council of the PRC. 25 years of clinical studies have proven that our uremic clearance granule is able to lower blood serum creatinine, ureanitrogen, urinary protein and albumin levels, improve lipid metabolism disorders and lower glycosylation end products. It is able to clear oxygen free radicals, significantly increase the number of red blood cells, improve renal anemia, increase blood calcium level, lower blood phosphorus level, and improve calcium and phosphorus metabolism disorders. Our uremic clearance granule can

effectively protect the residual renal function, thereby slowing down the worsening of chronic kidney failure, postponing the need to start the dialysis process and reducing the risk of complications. Over the years, the positive effects of uremic clearance granule were presented in over 250 articles in different domestic and international medical journals and science magazines, including the Chinese Journal of Nephrology (中華腎臟病雜誌), the Chinese Journal of Integrated Traditional and Western Nephrology (中國中西醫結合腎病雜誌), the Journal of Cellular Biochemistry and the Journal of Ethno-pharmacology.

Our uremic clearance granule is a leading modern Chinese medicine for treating kidney disease in the PRC. It has consistently ranked first in the market of oral modern Chinese medicines for kidney disease in the PRC from 2008 to 2012 in terms of retail sales, commanding a market share of 24.1% in 2012, according to SMERI Report. It has also consistently ranked among the top three in the market of kidney medicines in the PRC from 2008 to 2012 in terms of retail sales.

To consolidate our leading position in the market of oral modern Chinese medicines for kidney disease in the PRC, we continue to expand our portfolio of kidney medicines. In 2009, we launched the kidney repair and edema alleviation granule, which is a modern Chinese medicine mainly used for treating chronic glomerulonephritis and reducing proteinuria. Our kidney repair and edema alleviation granule can rejuvenate the spleen and improve the functions of kidney by reducing proteinuria and edema caused by the deficiency of the spleen. Since its launch in 2009, the sales of kidney repair and edema alleviation granule has experienced rapid growth in turnover from RMB0.6 million in 2010 to RMB5.0 million in 2012, representing a CAGR of 196.3% over the period. For the six months ended 30 June 2012 and 2013, turnover from such product were RMB1.8 million and RMB4.0 million, respectively, representing an increase of 117.9%. We have also increased our research and development efforts on new kidney medicines.

We believe that we are well positioned to benefit from the rapid growth across the market of oral modern Chinese medicines for kidney disease in the PRC and our market leadership can enhance our ability to increase our market share, as well as facilitate our efforts to further consolidate our leading position, in this market. We expect our products to continue to be the leading products in the market of oral modern Chinese medicines for kidney disease in the PRC.

Strong marketing capabilities with extensive national sales network

We have established our own highly-qualified marketing team which focuses on the sharing of specialist knowledge with medical practitioners. By sharing specialist knowledge and information, we aim to enrich and update medical practitioners' knowledge of our specialist medicines and other information on relevant therapeutic areas. In order to support our marketing strategy which focuses on the sharing of specialist knowledge, members of our marketing team are highly qualified and are capable of handling academic exchange with medical practitioners. Our marketing team is mainly divided into two groups according to our two major product categories, kidney medicines and medical contrast medium. Under each group, members are assigned different regions so that our marketing representatives can focus on the marketing and promotion of a particular product category in a designated target region with the benefit of local market knowledge and familiarity with our products. As of 30 June 2013, our marketing team comprised over 550 dedicated marketing representatives led by a director (總監). All members of our marketing team are our full time employees, with a majority holding professional qualifications in medical, pharmaceutical, marketing or other related areas.

As of 30 June 2013, we have established 31 liaison points covering 30 provinces, autonomous regions and municipality cities across the PRC. Such liaison points enable our marketing team to provide immediate marketing services and support to our customers.

In addition to the efforts of our marketing team, we also engage third party distributors who have extensive sales network to facilitate the effective distribution of our products. Further, to assist our third party distributors to extend their distribution coverage, we also try to locate for them sub-distributors that have established distribution network covering more remote or less developed regions beyond the geographical coverage of our third party distributors. As of 30 June 2013, we had 175 third party distributors and 580 sub-distributors which entered into distribution or sub-distribution agreements with us, which covered approximately 26,000 hospitals, medical institutions and pharmacies in 31 provinces, autonomous regions, and municipality cities across the PRC.

With our direct and close relationship with hospitals, medical institutions and pharmacies, supported by our third party distributors' extensive sales network across the PRC, our turnover increased substantially during the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013.

Strong research and development capabilities with the ability to realise commercialisation

As of 30 June 2013, we have a dedicated research and development team comprised 60 research personnel led by Professor ZHU Quan. Professor ZHU is our executive Director and chief scientist of GZ Consun, and is a professor and supervisor in the doctor of philosophy programme in Macau University of Science and Technology, a former member of the Science and Technology Committee of the Ministry of Education (教育部科學技術委員會), the former director of National Standardization Pharmacological Laboratory of Chinese Medicines (國家規範化中藥藥理實驗室) at Nanjing University of Chinese Medicine and a former expert for national medicines assessment (國家藥品評審專家). Professor ZHU has extensive experience in the research and development of medicines. In addition, four members of our research and development team hold doctorate degree or master's degree in pharmaceutical related areas, and more than half of our research personnel have over ten years of experience in the PRC pharmaceutical industry. In recognition of our proven research and development capability, the governmental authorities in the PRC have granted us financial subsidies to fund our research and development projects.

We adopt high throughput screening to analyse large amounts of research data in multi-levels with the aim of developing medicines that are effective, safe and with distinctive characteristics. To support our research and development, we utilise innovative research technology in the analysis of the membrane immobilised chromatography (細胞膜固相色譜) to analyse essential basis in Chinese medicines or natural medicines, adopt ultra filtration and reverse osmosis (超濾及反滲透) group to segregate, extract and concentrate ingredients, utilise microwave vacuum drying technology to reduce the drying time in medicines manufacturing process, minimise the loss of potency of the active ingredients in the medicines and the consumption of energy, and use microencapsulation technology to increase the stability of medicines.

We also have advanced testing and analytical equipments and research and development systems imported from overseas, including the cell imaging system that comprises the live cell workstation and other cyte-study system, the liquid and gas chemical analysis system that comprises the LC-MAS, the molecular biology research system that comprises the fluorescence microplate reader, and the modern medicines preparation technology that comprises ultrafiltration and reverse osmosis group and micro-pill machine.

As of the Latest Practicable Date, we had nine patents granted and one patent application pending registration by the SIPO. In addition, we had three patent applications pending approval in each of the United States by Europe and India. We had three patents granted in Hong Kong, one patent granted and two patent applications pending approval in Japan, and two patents granted

and one patent application pending approval in Korea. The subject matters of all of our overseas patent applications are related to compounds discovered during the refinement and re-development of our uremic clearance granule, which may be further developed to form the basis of new medicines in the future.

We have also established our own research and development laboratory for kidney medicines in 2006, which was awarded by the government of Inner Mongolia autonomous region as a "Research and Development Centre of Enterprises in Inner Mongolia Autonomous Region" in November 2012. Utilising our resources in this research centre, we had successfully developed and launched our kidney repair and edema alleviation granule in 2009. We have also formed collaborations with various research institutions, hospitals and universities, such as Guangzhou University of Chinese Medicine, to form a research and development structure. We believe that collaboration with external research institutions, hospitals and universities enables us to develop more products to be launched to the market in a timely manner and engage in research and development activities in a flexible and cost efficient manner.

Leveraging on our strong research and development capabilities, we have a proven track record in bringing product candidates from our successful research and development projects into commercially viable products. For example, we obtained the patent of kidney repair and edema alleviation granule in the PRC in 2009 and commenced production of this medicine in the same year. We adopt an efficient research and development strategy focusing on the development of specialist kidney medicines and medical contrast medium, based on our previous extensive clinical studies conducted and solid experience gained during the development of our existing products. Such research and development strategy aims to address major unmet medical needs of patients, contribute to the health improvement of the public, capture a significant portion of market share in new markets, enrich our product offering and allocate our resources efficiently to keep our research and development spending at an optimal level. As of the Latest Practicable Date, we had one product candidate pending the production approval, two product candidates in pre-clinical research stage and four product candidates in trial stage. We expect these product candidates to be registered by CFDA as either class six new Chinese medicines or class six generic medicines under the Registration Measures.

Comprehensive production facilities in strategically located production plants with stringent quality control

Our comprehensive production facilities comprised 13 production lines of injection, granules, tablets, pills, capsules and oral solution, which enable us to enjoy production flexibility by allowing us to produce pharmaceutical products in different forms to meet the market demands. Our production lines are housed in three self-owned production plants located in Guangzhou, Guangdong province and Tongliao, Inner Mongolia autonomous region, all of which have obtained GMP certifications. Our two production plants in Tongliao, Inner Mongolia autonomous region, are strategically located to benefit from the close proximity of the plantation bases of the key Chinese herbs for our production, including astragalus mongholicus (黃芪), in order to facilitate the delivery and supply of raw materials and thereby reducing the production cost. Two of our production bases are located in the Tongliao Bio-pharmaceutical Advanced Technology Industrial Park (通遼市生物醫藥高新技術特色工業產業化基地) which was recognised as the Advanced Technology Industrial Park in Mongolia autonomous region (內蒙古自治區高新技術特色工業產業化基地) for 2011 by Science and Technology Bureau of Inner Mongolia autonomous region (內蒙古自治區科學技術廳) in December 2011.

In addition to our comprehensive production facilities, our production is also supported by our stringent quality control system which meets the GMP standards. We place strong emphasis on the quality of our products as we believe that a good quality control system translates into customers' confidence. Stringent quality control measures are built into various stages of our production process, from procurement of raw materials, production, to inspection of finished products, to ensure that our pharmaceutical products meet the quality standards required by our customers and the relevant governing authorities. Our efforts on quality control is also recognised by the industry. We were the first pharmaceutical company which obtained the New Medicine Certificate and production approval for a MRI medical contrast medium in the PRC. Further, the CFDA made reference to our then quality standards in relation to gadopentetate dimeglumine injection when it formulated the national quality standards that apply to all gadopentetate dimeglumine injections manufactured by pharmaceutical manufacturers in the PRC.

Experienced and committed management team

Our management team combines extensive experience at several levels of the pharmaceutical industry value chain, from research and development to manufacturing and to marketing. Our chairman and executive Director, Mr. AN, has over 10 years of experience in medical education and has engaged in the operation of related business for approximately 17 years. Our chief executive officer and executive Director, Ms. LI, has extensive experience in corporate strategies, operation management and marketing, and has engaged in medical education, research and development of pharmaceutical products and operation management for over 23 years where she gained deep knowledge of the pharmaceutical industry. She has been with our Group for over 15 years since 1998 and she leads a core management team comprising Professor ZHU Quan, our executive Director and the chief scientist of GZ Consun, Mr. TANG Ning and Mr. ZHOU Shangwen, both are the vice presidents of GZ Consun and four other senior management. All members of the management team hold advanced degrees from national academic institutions, have extensive knowledge and professional experience in areas such as business administration, medical science, or accountancy and have served our Group for over five years. We believe our management team will continue to implement our strategies for sustainable growth in the PRC pharmaceutical industry.

OUR STRATEGIES

We will continue to focus on the development of specialist medicines, especially kidney medicines and medical contrast medium, and continue to manufacture and sell other medicines to supplement our mainstream specialist medicines. Our goal is to consolidate our leading position in the market of oral modern Chinese medicines for kidney disease in the PRC which has a high growth potential given the low awareness rate of chronic kidney disease in the PRC, and capture more market share in the market of medical contrast medium in the PRC. To achieve this goal, we plan to implement the following strategies:

Continue to enrich our product offering

To increase our competitiveness and sustain our growth, we will continue to enrich our product offering structure by introducing new products to the market. To supplement our uremic clearance granule and kidney repair and edema alleviation granule, which was launched in 1998 and 2009, respectively, for the kidney disease market, we have initiated a research and development project of a new pharmaceutical product for treating diabetic nephropathy in its early stage during the refinement and re-development of our uremic clearance granule. The development of this pharmaceutical product is currently at pre-clinical research stage and is intended to be developed in accordance with the standards of US Food and Drug Administration

and the European Union in relation to natural herbal medicines. We expect it to be registered by CFDA as a class six new Chinese medicine under the Registration Measures. We expect to launch this new product commercially before 2020. We are also in the process of developing another pharmaceutical product which is intended to be used for treating nephrotic syndrome (腎病綜合症) and expected to be launched in 2021.

Similarly, to supplement our gadopentetate dimeglumine injection which was launched in 1998 for the medical contrast medium market, we are in the process of developing another MRI medical contrast medium for enhancing the definition and contrast of magnetic resonance image formation of brain, spinal cord, and the magnetic resonance angiogram of blood vessels, which is expected to be launched in 2017. In addition to the current market of MRI medical contrast medium, we also plan to enter into the CT medical contrast medium market to enrich our product offering and to further utilise our existing resources on marketing and customer base. We are in the process of developing three CT medical contrast mediums which are expected to be launched in 2016.

Further, we also plan to enter into the new digestive medicines market and are in the process of developing a pharmaceutical product which is intended to be used for treating irritable bowel syndrome (腸易激綜合症). We expect to launch such pharmaceutical product in the second half of 2014. Given that irritable bowel syndrome is a common disease, we expect there will be high market demand and potential for this pharmaceutical product.

We may also acquire or co-operate with other pharmaceutical manufacturers which have a sizeable production capability in order to expand our market share in the market of other medicines.

We aim to launch products which meet the up-to-date demand of the fast-growing pharmaceutical market in order to remain competitive and achieve continuous and sustainable growth in the future.

Extend our marketing and distribution network and strengthen our marketing efforts

We intend to further increase our market share in the market of oral modern Chinese medicines for kidney disease and the market of medical contrast medium in the PRC by increasing the purchase amount of our existing customers and our coverage of hospitals in the PRC.

We will recruit additional marketing staff and provide more training to existing marketing staff. We will also promote medicines to our existing customers and extend our marketing efforts over those hospitals, medical institutions and pharmacies which are not currently purchasing our products. We also intend to organise conferences and seminars in areas where we aim to increase our hospital coverage.

We will continue to adopt a marketing strategy which focuses on the sharing of specialist knowledge with medical practitioners. Through our co-operation with professional academic bodies such as Chinese Medical Association (中華醫學會) and Chinese Medical Doctor Association (中國醫師協會), we will continue to offer continuing education courses for medical practitioners at all levels in the areas of kidney disease and medical contrast medium. We will continue to sponsor and attend national and regional academic conferences and organise various academic conferences at which renowned scholars are invited to give presentations on the functions of our specialist pharmaceutical products and exchange ideas on future development in the relevant therapeutic areas. We will also continue to publish the results of some of our research projects and place advertisements in professional magazines and journals which are distributed among medical practitioners to further promote our products. We aim to further enhance medical practitioners' awareness of our products by strengthening our marketing efforts.

We will also improve our recruitment process for marketing professionals, our marketing management and our incentive scheme for our marketing team and will continue to improve our marketing plans and budget management systems.

Further strengthen our research and development capabilities

Our research and development efforts will continue to focus on developing specialist kidney medicines and medical contrast mediums. We will continue to focus on the refinement and re-development of uremic clearance granule. The direction of our research and development focus will be driven by our aim to consolidate our leading position in the market of oral modern Chinese medicines for kidney disease in the PRC, to contribute to the health improvement of the public and to capture a significant portion of market share in new markets. We also intend to accelerate the process of research and development and application for approval and registration of new products.

We intend to continue enhancing our research and development capabilities by recruiting professionals who have at least five years of experience in research and development in the pharmaceutical industry. We also intend to continue to purchase advanced research and development equipment to increase the scale and standards of our research and development centre.

We will continue to collaborate with research institutions, hospitals and universities to develop new pharmaceutical products, applications of existing products, product formulation, production methods or techniques and benefit from their expertise, skills, resources and knowledge in these areas. We will also continue to seek collaboration with other renowned research partners to co-operate in research and development projects.

Continue to increase our brand recognition

We will continue to put our emphasis on increasing the recognition of our brand "Consun 康臣" (and 康臣 CONSUN) among medical practitioners as we believe that brand recognition and corporate image are key factors in the customers' purchasing decision.

As of the Latest Practicable Date, we had registered 68 trademarks in the PRC, five trademarks in Hong Kong and one trademark in each of the Philippines, Thailand, Vietnam, Indonesia, Singapore and Korea, including , which was recognised as "Guangzhou Well-Known Brand" by the Guangzhou branch of SAIC in 2011, and 康臣 CONSUN, which was recognised as "Guangdong Well-Known Brand" by the Guangdong branch of SAIC in 2012. We aim to associate our brand with contribution to the health improvement of the public, and make "Consun 康臣" (and 康臣 CONSUN) the leading brand in both the market of oral modern Chinese medicines for kidney disease and the market of medical contrast medium in the PRC. To achieve this, we intend to co-operate with academic-leading hospitals on research and development projects and clinical studies, and findings and results of such studies will be published in national and international medical journals. Apart from increasing advertisements in medical journals, we intend to launch television commercials to promote our products and our brand. We will continue to publish our own magazine 康臣健康園 (Consun Health Garden) with information such as kidney disease prevention and control for distribution to our end-users. We will explore opportunities to co-operate with overseas pharmaceutical manufacturers on licensing of their products in the PRC market or research and development matters.

In addition, we believe that our corporate image can be enhanced by undertaking social responsibility. We will continue to organise internal fund-raising activities for those affected by natural disasters, like what we did after the earthquake in Sichuan.

Expand our business through selective strategic acquisitions, investments or partnerships

We believe that acquisitions will provide a more expedient way for us to significantly expand our business. We will consider acquiring enterprises with traditional Chinese medicines planting capability to further enhance our vertically integrated structure that already includes research, manufacturing and marketing of medicines. We will consider acquiring enterprises that focus on oral modern Chinese medicines for kidney disease or medical contrast medium to supplement and enrich our existing product offering and product candidates under research and development, to strengthen our marketing capability and to increase our market coverage.

We will also consider suitable investments and partnerships where opportunities may arise, including establishing alliances and joint ventures with other pharmaceutical manufacturers to further strengthen and expand our core business. By leveraging our management and operational resources and experience, we believe we can effectively integrate acquired businesses into our business and maximise synergies and other benefits from acquisitions, investments or partnerships.

Continue to cultivate and recruit talented employees who are essential to our businesses

The contribution of our experienced senior management and professional employees is critical to our success. We plan to continue to attract and train talented employees, including those in corporate management, research and development, marketing, business development, manufacturing and quality control. We intend to continue to provide a series of training programmes for multiple levels of our employees, from senior management team to newly recruited personnel, to help them develop their working ability and to enhance their working efficiency. We intend to continue to provide our management team, research and development team, marketing team and other key employees, with compensation packages that we believe to be competitive in our industry. With a continued focus on the development of our human resources, we believe that we will be successful in retaining our key employees, enhancing their work ability and experience and continue to attract more talented individuals.

PRODUCTS

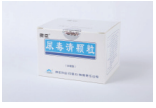
Our pharmaceutical products are divided into three product categories according to their therapeutic areas, namely kidney medicines, medical contrast medium and other medicines. Prior to the acquisition of Kangyuan, GZ Consun originally held the production approvals for six medicines, including four kidney medicines, one medical contrast medium and one other medicine. We acquired the production approvals of 78 other medicines when we first acquired 63.3% equity interest in Kangyuan in 2009, and we continued to manufacture and sell 17 of them during the Track Record Period. As these other medicines generally have lower gross profit margins, we have gradually ceased production and sale of 12 of these medicines since March 2010 and have ceased selling all these 12 medicines by June 2013. For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, turnover from these 12 medicines were RMB5.7 million, RMB4.2 million, RMB3.1 million and RMB0.1 million, respectively, representing approximately 1.9%, 1.1%, 0.7% and 0.0% of our turnover for the same periods, respectively. Going forward, we will continue to focus our production and marketing resources on our major products, including uremic clearance granule and gadopentetate dimeglumine injection, which we believe we have competitive advantages in the relevant markets and enjoy relatively higher gross profit margins, so that a stable revenue can be generated to support our business expansion and our research and development activities. As the cost of maintaining the production approvals of the 73 medicines which we do not currently manufacture and sell is minimal, we will continue to maintain such production approvals.

The following table shows our current pharmaceutical products under each product category as of the Latest Practicable Date:

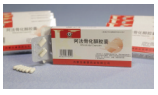
Product categories	Total number of products
Kidney medicines	4
Medical contrast medium	1
Other medicines	6
Total	11

As of the Latest Practicable Date, we had production approvals for 84 medicines including four kidney medicines, one medical contrast medium and 79 other medicines. Among these 84 medicines, 29 were included in the National List of Essential Medicines, 61 were listed in the National Medical Insurance Medicines Catalogue and 60 were subject to retail price controls imposed by the PRC government in the form of maximum retail price as of the Latest Practicable Date. Among 11 of our current pharmaceutical products, two, including our uremic clearance granule, were listed in the National List of Essential Medicines and six, including our uremic clearance granule and gadopentetate dimeglumine injection, were listed in the National Medical Insurance Medicine Catalogue and five were subject to retail price controls imposed by the PRC government.

The following table sets out the details of our current pharmaceutical products:

Product name	Intended treatment	Year of launch	OTC/ prescription medicines	Expiration date of production approval	Patent protection and expiration	National List of Essential Medicines	National Medical Insurance Medicines Catalogue	Subject to retail price controls imposed by PRC government
Kidney medicines								
Uremic clearance granule (尿毒清顆粒) 	For chronic kidney failure	1998	Prescription medicine	July 2017	March 2024	Yes	Yes	Yes
Kidney repair and edema alleviation granule (益腎化濕顆粒) 	For chronic glomerulonephritis	2009	Prescription medicine	March 2014[1]	May 2026	No	No	No

Product name	Intended treatment	Year of launch	OTC/ prescription medicines	Expiration date of production approval	Patent protection and expiration	National List of Essential Medicines	National Medical Insurance Medicines Catalogue	Subject to retail price controls imposed by PRC government
Renal supplement and impotence cure oral solution (補腎填精口服液) 	For kidney degeneration	1997	Prescription medicine	August 2015	N/A	No	No	No
Jin-gang pill (金剛丸) 	For kidney deficiency	1997	Prescription medicine	May 2015	N/A	No	No	No
Medical contrast medium								
Gadopentetate dimeglumine injection (釓噴酸葡胺注射液) 	For magnetic resonance image formation	1998	Prescription medicine	May 2015	N/A	No	Yes	Yes
Other medicines								
Compound amino acid injection (18AA-V) (複方氨基酸注射液(18AA-V)) 	For malnutrition and hypoproteinemia	(2)	Prescription medicine	December 2015	N/A	No	Yes	Yes
Iron dextran oral solution (右旋糖酐鐵口服液) 	For chronic anemia and iron deficiency anemia	(2)	OTC	August 2015	N/A	No	No	No
Erythromycin estolate suspension (依託紅霉素混懸液) 	For mycoplasmal pneumonia, other pneumonia and urinary tract infection	(2)	Prescription medicine	April 2015	N/A	No	No	No

Product name	Intended treatment	Year of launch	OTC/ prescription medicines	Expiration date of production approval	Patent protection and expiration	National List of Essential Medicines	National Medical Insurance Medicines Catalogue	Subject to retail price controls imposed by PRC government
Cetirizine hydrochloride oral solution (鹽酸西替利嗪口服溶液) 	For seasonal or perennial allergic rhinitis, urticaria and itchy skin	2000	Prescription medicine	May 2015	N/A	No	Yes	No
Alfacalcidol capsule (阿法骨化醇膠囊) 	For chronic kidney insufficiency, osteoporosis or diseases due to vitamin D metabolic disorder	(2)	Prescription medicine	August 2015	N/A	Yes	Yes	Yes
Doxofylline and glucose injection (多索茶鹼葡萄糖注射液) 	For bronchus disease	(2)	Prescription medicine	December 2015	N/A	No	Yes	Yes

Notes:

(1) Production approval may be renewed at least six months prior to its expiration date upon re-examination by the relevant authority. In September 2013, we submitted the application for renewal of production approval of our kidney repair and edema alleviation granule to the relevant authority.

(2) The production approvals of these products are in the name of Kangyuan and they were launched prior to our acquisition of 63.3% equity interest in Kangyuan in October 2009.

The following table sets out our turnover by product categories for the periods indicated:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
Turnover	*RMB ('000)*	*% of turnover*	*RMB ('000)*	*% of turnover*	*RMB ('000)*	*% of turnover*	*RMB ('000) (Unaudited)*	*% of turnover*	*RMB ('000)*	*% of turnover*
Kidney medicines										
Uremic clearance granule	232,235	76.5	301,359	77.4	347,690	75.9	130,713	71.9	171,053	74.9
Kidney repair and edema alleviation granule	570	0.2	1,955	0.5	5,004	1.1	1,823	1.0	3,972	1.7
Others	126	0.0	290	0.1	10	0.0	–	–	4	0.0
Sub-total	232,931	76.7	303,604	78.0	352,704	77.0	132,536	72.9	175,029	76.6
Medical contrast medium										
Gadopentetate dimeglumine injection	43,520	14.3	51,662	13.3	65,272	14.3	30,701	16.9	40,347	17.7
Other medicines	27,262	9.0	34,039	8.7	39,825	8.7	18,682	10.2	13,014	5.7
Total	303,713	100.0	389,305	100.0	457,801	100.0	181,919	100.0	228,390	100.0

Kidney medicines

We mainly engage in the research, manufacturing, marketing and sales of our kidney medicines. As of the Latest Practicable Date, we offered a portfolio of four kidney medicines with typical shelf life of one and a half to three years.

Oral modern Chinese medicines for kidney disease is a high growth market in the PRC. According to SMERI Report, the market size of oral modern Chinese medicines for kidney disease in the PRC was RMB2.0 billion in 2012, compared with RMB0.9 billion in 2008, representing an increase of 126.7% from 2008 to 2012. The market size of oral modern Chinese medicine for kidney disease in the PRC is estimated at RMB4.5 billion in 2017.

Below are details of our kidney medicines:

Uremic clearance granule (尿毒清顆粒)

Our key pharmaceutical product uremic clearance granule is a modern Chinese medicine and a prescription medicine developed on the basis of traditional Chinese medicine formula. It is manufactured in granule form and in two dosages, 75 grams and 90 grams, respectively. Its major ingredients are all Chinese herbs and include Chinese herb A, Chinese herb B, atractylodes macrocephala koidz (白朮), processed polygonum multiflorum root (制何首烏), poria cocos (茯苓), astragalus mongholicus (黃芪), the root of red-rooted, salvia (丹參), rheum officinale (大黃), and root bark of white mulberry (桑白皮). Chronic kidney disease is divided into five stages of increasing

severity. Patients with chronic kidney disease at the second to fifth stages are classified as having chronic kidney failure. Those patients whose chronic kidney disease are at the fifth stage normally require dialysis therapy and kidney transplantation. Currently there are no medicines available that can cure chronic kidney failure. All kidney medicines are aiming to slow down the worsening of chronic kidney failure. Our uremic clearance granule was the first modern Chinese medicine for treating chronic kidney failure in the PRC. It was also the first modern Chinese medicine in the PRC that can be used for treating azotemia, the early stage of chronic kidney failure or uremia. 25 years of clinical studies have proven that our uremic clearance granule is able to lower blood serum creatinine, ureanitrogen, urinary protein and albumin levels, improve lipid metabolism disorders and lower glycosylation end products. It is able to clear oxygen free radicals, significantly increase the number of red blood cells, improve renal anemia, increase blood calcium level, lower blood phosphorus level, and improve calcium and phosphorus metabolism disorders. Uremic clearance granule can effectively protect the residual renal function, thereby improving the conditions of patients with kidney disease, slowing down the worsening of chronic kidney failure, postponing the need to start the dialysis process and reducing the risk of complications.

We commenced production and sale of uremic clearance granule in 1998. Our uremic clearance granule has been listed in the National List of Essential Medicines since September 2012 and benefits from the Provisional Measures on the Administration of the National List of Essential Medicines, which requires hospitals and medical institutions to prescribe medicines listed in the National List of Essential Medicines. According to the regulations, government-run hospitals and medical institutions at community and county levels can only prescribe medicines in the National List of Essential Medicines, while other hospitals and medical institutions are required to prescribe a certain percentage of medicines on the list in their overall prescription. In addition, according to the Opinions of the Central Committee of the Communist Party of China and the State Council on Deeping the Reform of Medicine and Health System (中共中央、國務院關於深化醫藥衛生體制改革的意見), patients who are eligible participants in the basic medical insurance programme (基本醫療保險制度) are entitled to full or partial reimbursement of their purchase costs of medicines listed in the National List of Essential Medicines, the reimbursement rate of which is higher than those for medicines not on the list. Although our uremic clearance granule was listed on the National List of Essential Medicines in September 2012, it only took effect in May 2013. Therefore, the benefits of being listed in the National List of Essential Medicines have not yet been fully reflected in the sales of our uremic clearance granule during the Track Record Period.

As advised by our PRC Legal Advisers, the National List of Essential Medicines is generally subject to review and adjustment every three years. In practice, once a medicine is included in such list, it can usually remain listed unless: (i) its quality and inspection standards are cancelled; (ii) its production approval is revoked; (iii) it causes serious adverse reactions; (iv) it may be replaced by other alternative products which are more cost-effective or with lower risks; or (v) the relevant government authorities consider it necessary to be removed. According to SMERI Report, the implementation of the essential medicine programme has been one of the key targets of the PRC government under the Twelfth Five-Year Plan for National Economic and Social Development of the PRC, which resulted in the addition of medicines to the National List of Essential Medicines in 2012. Our Directors believe that going forward, our uremic clearance granule can remain listed in the National List of Essential Medicines following such government initiatives and being so listed is an important milestone for the sustainable growth of our uremic clearance granule, as our uremic clearance granule becomes more appealing to hospitals, medical institutions and patients and more competitive in terms of pricing than other medicines not in the National List of Essential Medicines.

As of the Latest Practicable Date, our uremic clearance granule was also listed in the National Medical Insurance Medicines Catalogue and the Military Reasonable Medical Treatment Medicines Catalogue. As advised by our PRC Legal Advisers, patients who are eligible participants in the governmental basic medical insurance programme are entitled to full or partial reimbursement of their purchase costs of medicines listed in the National Medical Insurance Medicines Catalogue. The National Medical Insurance Medicines Catalogue is generally subject to review and adjustment every two years. However, once a medicine is listed, it can usually remain listed unless: (i) its production approval or import registration (in case of imported medicines) is revoked; (ii) its production, sales and usage are prohibited by the government authorities; (iii) its manufacturer violates the relevant laws in the course of production and sales; or (iv) its manufacturer cheats during examination and evaluation. Our Directors believe that going forward, our uremic clearance granule can remain in the National Medical Insurance Medicines Catalogue. Please also refer to the section headed "RISK FACTORS – RISKS RELATING TO OUR BUSINESS – There is no assurance that our products will continue to be, or new products developed by us will be, listed in the National List of Essential Medicines or the National Medical Insurance Medicines Catalogue or recognised as a national Chinese medicine protection type by the CFDA" in this prospectus for more details.

In addition, the production technique of our uremic clearance granule was patented by SIPO in October 2006 and our uremic clearance granule has been recognised as a class two national Chinese medicine protection type by the CFDA from December 2000 to December 2014 in accordance with the Chinese Medicine Type Protection Law promulgated by the State Council of the PRC, which was renewed once after our submission of renewal application in 2007. As advised by our PRC Legal Advisers, Chinese medicines can only be recognised as class two national Chinese medicine protection type if they fulfill certain stringent criteria, including having remarkable and positive therapeutic effects. During the protection period, no other person or entity is allowed to manufacture such Chinese medicines unless: (i) the relevant medicine is in shortage; and (ii) the manufacture of such medicine has been approved by the relevant government authorities, subject to payment of a licensing fee to the enterprise who has obtained the relevant certificate of the relevant protected Chinese medicine. To the best knowledge of our Directors, there has been no shortage of our uremic clearance granule in the market, and no person or entity has been approved by the relevant government authorities to manufacture our uremic clearance granule during the Track Record Period. Our Directors believe that being recognised as a class two national Chinese medicine type can also indirectly reduce the extent of competition faced by our uremic clearance granule. Our PRC Legal Advisers have advised that we may apply to CFDA to renew the status of our uremic clearance granule as a class two national Chinese medicine protection type for another seven years six months prior to its expiration. We plan to renew such status of our uremic clearance granule accordingly before it expires. According to the public information available at the official website of CFDA, it usually takes CFDA about 140 working days to examine and approve an application for the renewal of such status from the receipt of a complete application.

The formula and key production technique of our uremic clearance granule was also recognised by the Ministry of Science and Technology and State Secrecy Bureau (國家保密局) as a State Secret under the secret category in October 2006 for a term of five years, which status was subsequently extended to and expired in October 2013. The granting and renewal of the State Secret status is to be initiated by relevant governmental authorities in their sole discretion. Please refer to the section headed "REGULATIONS – PROTECTION OF PHARMACEUTICAL PRODUCTS IN THE PRC – State Secret" in this prospectus for further details. As of the Latest Practicable Date, we had not been informed of the status of the renewal of the State Secret status by the relevant authorities. According to SMERI Report, as of 30 June 2013, there was no other kidney medicine in the PRC which had the State Secret status. The following table sets out the

subject matters of the patent, class two national Chinese medicines protection type and State Secret in relation to our uremic clearance granule and their respective protection offered:

	Subject matter	Protection offered
Patent	Certain production techniques (that are not covered by the State Secret) of our uremic clearance granule	Prohibited use of the patented production techniques of our uremic clearance granule by others without our Group's consent
Class two national Chinese medicines protection type	Our uremic clearance granule	Prohibited manufacturing of the uremic clearance granule by other person or entity except under certain special circumstances mentioned above
State Secret	Formula and the key production techniques of our uremic clearance granule	Prohibited disclosure of the protected information by our Group and copying or use of such protected information by other person or entity

Our Directors do not expect the expiry of the State Secret status will have any significant impact on the sales of our uremic clearance granule as the patent by SIPO also provides national protection of certain production techniques of our uremic clearance granule and the Chinese Medicine Type Protection Law also prohibits other person or entity from manufacturing our uremic clearance granule. Further, according to Circular of the National Development Planning Commission on Printing and Distributing the Measures for Pricing of Medicines by Government (國家計委關於印發藥品政府定價辦法的通知) promulgated by NDRC, whether a pharmaceutical product possesses State Secret status is not a factor for determining the maximum retail prices by the PRC government. In addition, since mid-October 2013 and up to the Latest Practicable Date, our Group has not experienced any downward pressure on the average wholesale price of our uremic clearance granule, or any significant drop of sales thereof, and do not expect such to occur in the future, as a result of the expiry of the State Secret status.

Over the years, the positive effects of our uremic clearance granule were presented in over 250 articles in different domestic and international medical journals and science magazines, including the Chinese Journal of Nephrology, the Chinese Journal of Integrated Traditional and Western Nephrology and the Journal of Cellular Biochemistry and the Journal of Ethno-pharmacology.

According to SMERI Report, our uremic clearance granule has consistently ranked first in the market of oral modern Chinese medicines for kidney disease in the PRC from 2008 to 2012 in terms of retail sales, commanding a market share of 24.1% in 2012. It has also consistently ranked among the top three in the market of kidney medicines in the PRC from 2008 to 2012 in terms of retail sales.

Kidney repair and edema alleviation granule (益腎化濕顆粒)

Our kidney repair and edema alleviation granule is a modern Chinese medicine made in granule form and has a positive curative effect in treating chronic glomerulonephritis (慢性腎小球腎炎),which is one of the causes of chronic kidney disease in the PRC, according to SMERI Report. Its major ingredients include atractylodes macrocephala koidz (白朮), poria cocos (茯苓), Chinese herb C, ginseng (人參) and astragalus mongholicus (黃芪). It can rejuvenate the spleen and improve the functions of kidney by reducing proteinuria, hematuria and edema caused by the deficiency of the spleen.

We obtained the New Medicine Certificate and production approval for the production and sale of our kidney repair and edema alleviation granule and commercially launched this pharmaceutical product in 2009. We obtained patent registration in the PRC for our kidney repair and edema alleviation granule in the same year. It was launched under the same "Consun 康臣" brand as our uremic clearance granule, and we believe that it can benefit from the good reputation and brand recognition of our market leading uremic clearance granule. Coupled with our strong marketing capability, our established extensive geographical coverage of our third party distributors and enhanced advertising effort, our kidney repair and edema alleviation granule has successfully penetrated into the market of oral modern Chinese medicines for kidney disease in the PRC. Since its launch, the sales of our kidney repair and edema alleviation granule has experienced rapid growth in turnover from RMB0.6 million in 2010 to RMB5.0 million in 2012, representing a CAGR of 196.3% over the period. For the six months ended 30 June 2012 and 2013, turnover from such product were RMB1.8 million and RMB4.0 million, respectively, representing an increase of 117.9%. We believe that our kidney repair and edema alleviation granule has good market potential and will continue to grow significantly and become another strong contributor to our turnover in the long term.

According to SMERI Report, the ranking of our kidney repair and edema alleviation granule has also arisen significantly from 54th in 2009 to 22nd in 2012 in terms of retail sales in the market of oral modern Chinese medicine for kidney disease in the PRC.

Others

In addition to uremic clearance granule and kidney repair and edema alleviation granule, we also manufacture and sell two modern Chinese medicines for treating kidney disease, being renal supplement and impotence cure oral solution (補腎填精口服液), which is used for alleviating symptoms such as erectile dysfunction, leg and flank pain, cold hands and feet and lethargy due to kidney degeneration, and jin-gang pill (金剛丸), which is a modern Chinese medicine manufactured on the basis of traditional Chinese medicine formula and is used for alleviating symptoms such as muscles atrophy, tendon pain, knee and back pain and general weakness due to kidney deficiency.

Medical contrast medium

Medical contrast medium is another key product category that we focus on. It is a substance used to enhance the contrast of structures or fluids within the body in medical imaging. The typical shelf life of our medical contrast medium is three years.

Medical contrast medium is another high growth market in the PRC. According to SMERI Report, the market size of MRI medical contrast medium in the PRC was RMB504.1 million in 2012, compared to RMB207.0 million in 2008, representing an increase of 143.5%. The market size of MRI medical contrast medium in the PRC is estimated at RMB1.4 billion in 2017.

Gadopentetate dimeglumine injection (釓噴酸葡胺注射液)

Our gadopentetate dimeglumine injection is manufactured in injection form and in four dosages, 10ml, 12ml, 15ml and 20ml, respectively and is commonly used as a medical contrast medium for the purpose of magnetic resonance image formation of central nervous system, abdomen, thorax, pelvic cavity, limbs, other organs and tissues of human body. As it can shorten the longitudinal relaxation time and transverse relaxation time of protons in tissues, it can enhance the definition and contrast of the magnetic resonance image.

According to SMERI Report, gadopentetate dimeglumine injection, including those manufactured and sold by us, had a total market share of 78.4% in the MRI medical contrast medium market in the PRC in 2012. There are only five manufacturers which have obtained the production approval from CFDA for the manufacture and sale of gadopentetate dimeglumine injection in the PRC and only four of them, including us, are still manufacturing and selling such pharmaceutical product. Amongst the five approved manufacturers, we were the first pharmaceutical company which obtained the New Medicine Certificate and production approval for a MRI medical contrast medium in the PRC.

We were the first pharmaceutical company which obtained the New Medicine Certificate and production approval for a MRI medical contrast medium in the PRC to fill the gap in market of the MRI medical contrast medium in the PRC at the time. Our gadopentetate dimeglumine injection has been registered by CFDA as a class two new medicine under the Registration Measures. We obtained the New Medicine Certificate in 1993 and production approval for the production and sale of gadopentetate dimeglumine injection in 1995, and commercially launched this pharmaceutical product in 1998. Over the years, the positive effects of gadopentetate dimeglumine injection were presented in over 10 articles in different medical journals and science magazines, including the Chinese Journal of CT and MRI (中國CT和MRI雜誌) and The Journal of Practical Medicine (實用醫學雜誌). Over the years, the quality and effectiveness of our gadopentetate dimeglumine injection has gained broad recognition in the PRC pharmaceutical industry since its launch in 1998. As of the Latest Practicable Date, our gadopentetate dimeglumine injection was listed in the National Medical Insurance Medicines Catalogue.

According to SMERI Report, our gadopentetate dimeglumine injection had a market share of 17.1% and ranked third in the market of MRI medical contrast medium in the PRC in 2012 in terms of retail sales.

Other medicines

In order to diversify our product portfolio to include pharmaceutical products in other therapeutic areas, we also manufacture and sell various other medicines. As of the Latest Practicable Date, we manufactured and sold six other medicines, among which one was listed in the National List of Essential Medicines, and four were listed in the National Medical Insurance Medicines Catalogue. These other medicines are primarily chemical medicines including both prescription medicines and OTC medicines. The typical shelf life of our other medicines is one to three years.

Our key other medicines include four chemical medicines: compound amino acid injection (18AA-V)(複方氨基酸注射液(18AA-V)), which is used for treating malnutrition and hypoproteinemia, iron dextran oral solution (右旋糖酐鐵口服液), which is used for treating chronic anemia and iron deficiency anemia due to malnutrition and during pregnancy and puberty cetrizine hydrochloride oral solution (鹽酸西替利嗪口服溶液), which is used for treating seasonal or perennial allergic rhinitis, urticaria and itchy skin and erythromycin estolate suspension (依託紅霉素混懸液), which is used for treating mycoplasmal pneumonia (支原體肺炎), other pneumonia and urinary tract infection.

During the Track Record Period, we also manufactured and sold thrombolytic injection (血栓通注射液) which is used for treating central retinal vein occlusion. Due to its anticipated relatively low gross profit margin primarily as a result of the increase in the price of panax notoginsenosides (三七總皂苷), one of its major raw materials, we ceased production of thrombolytic injection in August 2012. Please refer to the paragraph headed "RAW MATERIALS" in this section for further details of the historical prices of panax notoginsenosides during the Track Record Period. For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, sales of our thrombolytic injection were RMB4.1 million, RMB3.3 million, RMB2.6 million and nil, respectively.

RESEARCH AND DEVELOPMENT

Research and development is critical to the sustainable growth of our business. We are devoted to our research and development and have been recognised as a "High and New Technology Enterprise" in the PRC since 2001. Our research and development efforts focus on the following areas:

- Specialist kidney medicines development. We seek to develop new medicines addressing major unmet medical needs of kidney disease patients with the objective of contributing to the health improvement of the public and to capture a significant portion of market share in new markets, as well as to enrich our product offering. In this regard, we have established our own research and development laboratory for kidney medicines in 2006, which was awarded by the government of Inner Mongolia autonomous region as a "Research and Development Centre of Enterprises in Inner Mongolia Autonomous Region" in November 2012.

- Product enhancement. We seek to discover new curative effects and uses to enhance our existing products and enrich our product offering.

- Quality standard and production improvement. We seek to increase the quality of our pharmaceutical products by improving their quality standards and production through improving the existing production methods and techniques.

We adopt high throughput screening to analyse large amounts of research data in multi-levels with the aim of developing medicines that are effective, safe and with distinctive characteristics. To support our research and development, we utilise innovative research technology in the analysis of the membrane immobilised chromatography (細胞膜固相色譜) to analyse essential basis in Chinese medicines or natural medicines, adopt ultra filtration and reverse osmosis (超濾及反滲透) group to segregate, extract and concentrate ingredients, utilise microwave vacuum drying technology to reduce the drying time in medicines manufacturing process, minimise the loss of potency of the active ingredients in the medicines and the consumption of energy, and use microencapsulation technology to increase the stability of medicines.

We also have advanced testing and analytical equipments and research and development systems imported from overseas, including the cell imaging system that comprises the live cell workstation and other cyte-study system, the liquid and gas chemical analysis system that comprises the LC-MAS, the molecular biology research system that comprises the fluorescence microplate reader and the modern medicines preparation technology that comprises ultrafiltration and reverse osmosis group and micro-pill machine.

We undertake detailed market analysis through collecting information from public sources, analysing related intellectual properties, consulting with research institutions and academic bodies. We also collect feedback from customers, medical practitioners, hospitals and end-users, on future disease trends, market preferences and industry research directions for research programmes prior to commencement of product or technology research projects. While identifying and selecting research programmes, we generally focus on those that have been identified as key diseases in the PRC; or have unmet medical needs in the PRC and have the potential for gaining widespread market acceptance, such as diabetes relating to kidney disease. We conduct our research and development both in-house and through collaboration with external research partners, such as research institutions and universities. External research partners are mainly engaged to provide specific project related technical services, such as pharmacology, toxicology and clinical studies, while the determination of research projects and the core technology for the commercialisation of a particular product remains with our in-house research and development team.

As of the Latest Practicable Date, we had nine patents granted and one patent application pending registration by the SIPO. According to the PRC Patent Law, patent relating to invention are effective for 20 years from the initial date of filing of such patent. In addition, we had three patent applications pending approval in each of the United States, Europe and India. We had three patents granted in Hong Kong, one patent granted and two patent applications pending approval in Japan, and two patent applications granted and one patent application pending approval in Korea. The subject matters of all of our overseas patent applications are related to compounds discovered during the refinement and re-development of our uremic clearance granule, which may be further developed to form the basis of new medicines in the future. In recognition of our proven research and development capability, the governmental authorities in the PRC have granted us financial subsidies to fund our research and development projects.

The production techniques of our uremic clearance granule and kidney repair and edema alleviation granule have been patented in the PRC. As the remaining nine pharmaceutical products which we currently manufacture and sell are Generic Medicines, we do not plan to apply for patent protection as both their formula and the production techniques do not fulfil the innovation requirements for patent application.

We adopt an efficient research and development strategy focusing on the development of specialist kidney medicines and medical contrast medium, based on (i) our previous extensive clinical studies conducted, (ii) solid experience gained during the development of our existing products, and (iii) feedback of medical practitioners in hospitals, medical institutions and pharmacies collected during our marketing activities. In addition, we engage external research partners to leverage on their research and development capabilities. Such strategy allows us to allocate our resources efficiently to keep our research and development spending at an optimal level. The research and development of New Medicines can be broadly classified into three stages, namely (i) pre-clinical research stage; (ii) clinical research stage; and (iii) trial stage. New Medicine product candidates need to obtain the required verifications and approvals from the relevant governmental authorities before moving to the next stage, while Generic Medicine product candidates generally do not need to go through clinical research stage as their functions and effects have already been verified. Therefore, research and development expenses are generally higher for the research and development of a New Medicine than a Generic Medicine. In addition,

the costs for the clinical research stage are generally higher than those for the pre-clinical research stage as it usually takes longer period of time for assessment and confirmation of therapeutic efficacy for a New Medicine product candidate. During the Track Record Period, only three out of our seven product candidates as of the Latest Practicable Date are potential New Medicines, and only one of them is in the clinical research stage.

Further, we have implemented an internal procedure to manage and monitor the use of funds in relation to our research and development activities. Our senior management, together with managers of various departments, such as managers of our production team, sales and marketing team, procurement team and finance team, review and approve the project proposals made by our research and development team. Our research and development team then formulates detailed schedules for these projects and the annual budgets for our research and development activities. Our finance department monitors overruns of such annual budgets and any increase in such annual budgets must be reviewed and approved by our senior management.

For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our research and development expenses were RMB12.8 million, RMB14.3 million, RMB13.4 million and RMB4.8 million, respectively. To the best knowledge of our Directors, maintaining a relatively low level of research and development expenses when compared to the amount of revenue is common for pharmaceutical companies focusing on Chinese medicines. With our product candidates entering different research and development cycles, our Directors expect that the level of research and development expenses will increase after Listing. We intend to incur approximately RMB420 million on research and development activities for the next eight years, with approximately RMB30 million in 2014, RMB40 million in 2015, RMB50 million in 2016 and RMB60 million in each of 2017 to 2021, which are to be funded by our cash generated from operations together with approximately 20% of the net proceeds from the Global Offering. Please refer to the section headed "FUTURE PLANS AND USE OF PROCEEDS – USE OF PROCEEDS" in this prospectus for more details.

In-house research and development

Research and development of new pharmaceutical products are critical to our continuous growth. As of 30 June 2013, we have a dedicated in-house research and development team which comprised 60 research personnel, of whom four hold doctorate degree or master's degree in pharmaceutical related areas, and more than half of the research personnel have over ten years of experience in the PRC pharmaceutical industry. Our research and development team is led by Professor ZHU Quan, our executive Director and chief scientist of GZ Consun, who is a professor and supervisor in the doctor of philosophy programme in Macau University of Science and Technology, a former member of the Science and Technology Committee of the Ministry of Education, the former director of the National Standardization Pharmacological Laboratory of Chinese Medicines at Nanjing University of Chinese Medicine and a former expert for national medicines assessment. Professor ZHU has extensive experience in the research and development of medicines.

We adopt an innovative research and development management model, under which (i) members are not assigned to a specific research programme but are exposed to and become active players in all research programmes selected; and (ii) members are divided into three groups, each of which is responsible for a specific stage of research and development projects. We believe that this management model not only allows our research and development team to be actively involved in each of our research and development projects and enables the interaction among different groups, but also avoids the overlap of efforts. It also reduces the risk of any single member obtaining the technical know-how of the entire research and development project.

Our research and development team is also responsible for patent application of, and applying for, relevant approval and registration of new products, including the New Medicine Certificate and production approval.

Collaboration with external research partners

We continually seek cooperation opportunities and have formed collaborations with various research institutions, hospitals and universities, such as Guangzhou University of Chinese Medicine, to form a research and development structure. We have also established our own research and development laboratory for kidney medicines, which was awarded by the government of Inner Mongolia autonomous region as one of the "Research and Development Centre of Enterprises in Inner Mongolia Autonomous Region" in November 2012.

The terms of the relevant cooperation agreements with our external research partners normally provide that we are responsible for all funding and necessary equipment, and for arranging the accommodation for the personnel of our research partners at our production plant in Guangzhou, Guangdong province. In addition, our research and development team also actively participates in all of the joint research and development projects. We usually agree that our research partners may publish academic thesis in international professional journals in respect of the joint research results. However, we will have the sole right to produce and sell the new pharmaceutical products, and to submit the registration application in respect of the applications of existing products, product formulation, production methods or techniques discovered under the joint research projects, the sole right to the intellectual properties associated with such new pharmaceutical products, applications of existing products, product formulation, production methods or techniques or any joint research result, and any other benefits resulting from the successful development and commercialisation of the relevant pharmaceutical products.

Products under development

We seek to develop new medicines addressing major unmet medical needs, with the objective of contributing to the health improvement of the public and to capture a significant portion of market share in new markets, as well as to enrich our product offering. The support from the research and development team is crucial in this regard. As of the Latest Practicable Date, we had one product candidate pending the production approval, two product candidates in pre-clinical research stage and four product candidates in trial stage. We currently expect to incur a total of approximately RMB71.1 million on research and development of these product candidates. During the Track Record Period, we discontinued the research and development project of a digestive medicine as we were unable to obtain the New Medicine Certificate for such medicine due to deficiency in the design and control of our trial process. Considering that further investment in the project would exceed the commercial benefits arising from this medicine, we instead focused our resources on research and development of another digestive medicine for irritable bowel syndrome. We have incurred a total of approximately RMB3.2 million in this discontinued research and development project. Save for this digestive medicine, we have not discontinued any other research and development projects during the Track Record Period. Details of our pharmaceutical products under development as of the Latest Practicable Date are set out below:

Kidney medicines

Pharmaceutical product for diabetic nephropathy

During the refinement and re-development of our uremic clearance granule, our research and development team has independently initiated a research and development project of the new pharmaceutical product for treating diabetic nephropathy in its early stage. This new pharmaceutical product is intended to be developed in accordance with the standards of US Food and Drug Administration and the European Union in relation to natural herbal medicines and be used for treating diabetic nephropathy. We expect it to be registered by CFDA as a class six new Chinese Medicine under the Registration Measures. We obtained the patent registration of this new pharmaceutical product in the PRC and Korea in 2012. It will supplement our product offering under the kidney medicines category when it is commercially launched. The development of this new pharmaceutical product is currently at pre-clinical research stage. We expect to complete the clinical research in 2017 and launch this new product commercially before 2020.

Pharmaceutical product for nephrotic syndrome

This new pharmaceutical product is a modern Chinese medicine made on the basis of traditional Chinese medicine formula. It is independently developed by our research and development team and is intended to be used for treating nephrotic syndrome. We expect it to be registered by CFDA as a class six new Chinese medicine under the Registration Measures. It will supplement our product offering under the kidney medicines category when it is commercially launched. We believe that this pharmaceutical product can be used as a substitute for glucocorticosteroid, which is commonly used for treating nephrotic syndrome. The development of this pharmaceutical product is currently at pre-clinical research stage, and we expect to complete the clinical research in 2019 and launch this new product commercially in 2021.

Medical contrast mediums

MRI medical contrast medium

This new pharmaceutical product, to be made in injection form, is intended to be used to enhance the definition and contrast of magnetic resonance image formation of brain, spinal cord, and the magnetic resonance angiogram of blood vessels. We expect it to be registered by CFDA as a class six generic medicine under the Registration Measures. It will supplement our product offering under the medical contrast medium category when it is commercially launched. The development of this product is currently at trial stage, and we expect to launch this new product commercially in 2017.

Three CT medical contrast mediums

The three CT medical contrast mediums are intended to be used for the purpose of CT image formation of vertebral canal and cardio-cerebral vascular, and intravenous urography. These pharmaceutical products will contain iodine which can absorb x-ray in blood vessels or other tissues for image formation. Unlike MRI medical contrast medium, CT medical contrast medium is able to show bone metastasis and calcification, although it may also cause radioactive damage to the patient. We expect them to be registered by CFDA as class six generic medicines under the Registration Measures. They will supplement our product offering under the medical contrast medium category when they are commercially launched. All of them are in the trial stage. We expect to launch these new products commercially in 2016.

Digestive medicine

We plan to diversify our product portfolio by introducing digestive medicine as our new product category. Details of our key digestive medicine under development are set out below.

Digestive medicine for irritable bowel syndrome

This new pharmaceutical product is a modern Chinese medicine developed on the basis of traditional Chinese medicine formula and is intended to be used for treating irritable bowel syndrome. Irritable bowel syndrome is a common disease in the PRC. We expect that there will be high market demand and potential for this pharmaceutical product. We have applied for the registration of this pharmaceutical product as a class six new Chinese medicine under the Registration Measures.

This new pharmaceutical product will be our first digestive medicine when it is commercially launched. It has obtained the New Medicine Certificate and is pending for the production approval. We expect to launch this new product commercially in the second half of 2014.

MARKETING AND DISTRIBUTION

We have a marketing team which implements a proven marketing model. As of 30 June 2013, we had over 550 dedicated marketing representatives, the majority of whom have professional background in medical, pharmaceutical, marketing or other related areas. As pharmaceutical products generally require a higher level of customer knowledge than ordinary consumer goods, and in particular, as our key products are prescription medicines, we consider that sharing specialist knowledge and information with medical practitioners in hospitals, medical institutions and pharmacies and collecting their feedbacks are essential in promoting our products. By doing so, we aim to enrich and update medical practitioners' knowledge of our specialist medicines and other information on relevant therapeutic areas. Through such interaction, we directly market and promote our kidney medicines and medical contrast medium to hospitals, medical institutions and pharmacies. In addition, to achieve deep market penetration in a more effective manner, we engage Independent Third Party distributors to distribute our kidney medicines and medical contrast medium. These third party distributors are GSP certified corporations and have extensive geographic distribution network with strong logistics support. Our third party distributors who purchase kidney medicines and medical contrast medium from us are only responsible for reselling and distributing these products to hospitals, medical institutions and pharmacies either directly or indirectly through other sub-distributors. As of 30 June 2013, we had 175 third party distributors. Our Directors believe that this distribution arrangement is an industry norm and enables us to focus our resources in research and development, manufacturing, and marketing of our products, as we do not need to maintain an extensive GSP certified distribution network with logistics coverage at our own expenses.

Our marketing activities

All members of our marketing team are our full time employees, with a majority holding professional qualifications in medical, pharmaceutical, marketing or other related areas. Our marketing team are mainly divided into two groups according to our two major product categories: kidney medicines and medical contrast medium. Each group has in place one to two national director(s) to formulate the marketing and promotion strategies, regional managers to handle the marketing activities within their assigned regions, and marketing representatives to market and promote our kidney medicines and medical contrast medium to target hospitals, medical institutions and pharmacies and share with them the latest development information of these

products. Most members of our marketing team have over five years of experience in the PRC pharmaceutical industry. This arrangement allows our marketing representatives to focus on the marketing and promotion of a particular product category in a designated target region with the benefit of local market knowledge and familiarity with our products.

We have an extensive network and as of 30 June 2013, we had established 31 liaison points covering 30 provinces, autonomous regions, and municipality cities across the PRC. Such liaison points enable our marketing team to provide immediate marketing services and support to our customers. The following map shows the geographical location of our liaison points as of 30 June 2013:

Leveraging on our research and development capabilities and the academic background of members of our marketing team, we adopt a marketing strategy which focuses on sharing of specialist knowledge with medical practitioners. By sharing specialist knowledge and information, we aim to enrich and update medical practitioners' knowledge of our specialist medicines and other information on relevant therapeutic areas. As part of our marketing activities, we sponsor and attend national and international academic conferences, organise various academic conferences at which renowned scholars are invited to give presentations on the functions of our specialist pharmaceutical products and exchange ideas on future development in the relevant therapeutic areas. In addition, through our co-operation with professional academic bodies such as Chinese Medical Association and Chinese Medical Doctor Association, we offer continuing education courses for medical practitioners in respect of kidney disease and medical contrast medium. We have organised various continuing education courses in respect of issues commonly encountered by medical practitioners in the field of nephrology, such as integrated Chinese-western medical treatment on nephritis and kidney failure and application of medical contrast medium. Medical practitioners attending these continuing education courses are granted continuing education credits by the Chinese Medical Association. We also publish the results of some of our research

projects and place advertisements in professional magazines and journals which are distributed among medical practitioners to further promote our products. In addition, we have our own magazine 康臣健康園 (Consun Health Garden) with information such as kidney disease prevention and control, which is published quarterly and distributed to our end-users for free.

We continually strengthen the quality of our marketing representatives by providing training on a regular basis to improve their product knowledge and marketing skills, which include the skills to organise conferences and seminars for different departments in the medical institutions, handle face-to-face academic exchange according to their academic capability, and handle queries of various customers.

To manage our distribution network, our marketing representatives also work closely with our third party distributors and are responsible for setting sales targets, monitoring performance of our third party distributors and their inventory level, assisting them in seeking sub-distributors so that our kidney medicines and medical contrast medium can penetrate effectively into areas beyond the geographic coverage of our third party distributors.

Collective statutory tender process

According to the Notice on Issuing Certain Regulations on the Trial Implementation of Centralised Procurement of Pharmaceutical Products by Medical Organizations (關於印發醫療機構藥品集中招標採購試點工作若干規定的通知) and the Notice on Further Improvement on the Implementation of Centralised Procurement of Pharmaceutical Products by Medical Organisations (關於進一步做好醫療機構藥品集中招標採購工作的通知), except for those stipulated otherwise, all procurement of pharmaceutical products by non-profit-making hospitals and other non-profit-making medical institutions established by the PRC government at the county level or higher has to be conducted through a collective statutory tender process. Pursuant to these collective statutory tender processes, pharmaceutical manufacturers of relevant products are invited to submit their bids to the local government or its designated institution that runs the tender process. The tender process is normally conducted every one to three years across different provinces, autonomous regions or municipality cities in the PRC. A bid evaluation committee of the local government or its designated institution selects the winning bids to supply a particular type of medicine. The selection is conducted on the basis of several factors, including the bidding price, product quality, curative effectiveness, and the pharmaceutical manufacturer's reputation and business scale. Hospitals and medical institutions then select one or more winning pharmaceutical manufacturers to supply the medicine by placing orders with the relevant pharmaceutical product distributors. In some cases, the bid evaluation committee may also select certain pharmaceutical manufacturers to supply alternative medicines with unique curative effects based on suggestions of pharmaceutical practitioners and experts and clinical medical experts even if these pharmaceutical manufacturers failed to win in the collective statutory tender process to supply these medicines. Hospitals and medical institutions are also allowed to purchase these alternative medicines from these pharmaceutical manufacturers provided the purchase amounts do not exceed the amounts set by the bid evaluation committee. If we are selected as the winning bidder or the provider of the alternative medicines, we are required to provide the relevant hospitals and medical institutions with a list of our third party distributors in the relevant region. It is the sole discretion of the relevant hospitals or medical institutions to determine the exclusive suppliers from which they source the relevant pharmaceutical products. In practice, the relevant hospitals or medical institutions would only select one supplier as their exclusive supplier of the relevant pharmaceutical product.

During the Track Record Period, almost all of our pharmaceutical products were sold to the non-profit-making hospitals or other non-profit-making medical institutions through the collective statutory tender processes.

Regional managers of our marketing team actively participate in such tender process by providing market intelligence, making pricing suggestions to our senior management and our tender team of marketing department based on their analysis on the market status and trend, assisting in the preparation of tender documents and other administrative matters and promoting our products to our third party distributors and securing purchase orders with our third party distributors from the hospitals once we have won in the relevant collective statutory tender process. For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, we participated in 327, 150, 64 and 61 collective statutory tender processes, respectively. The number of collective statutory tender processes which we participated in decreased during the Track Record Period is primarily due to timing of these collective statutory tender processes as the collective statutory tender process is normally conducted every one to three years across different provinces, autonomous regions or municipality cities in the PRC and as the winning bidder, hospitals, medical institutions and pharmacies are allowed to continue to purchase our products until the next collective statutory tender process. For those collective statutory tender processes that we participated in, our success rate was 64.8%, 56.0%, 84.4% and 49.2%, respectively for the same periods. The success rate for the six months ended 30 June 2013 may improve as the results of 25 out of 61 collective statutory tender processes we participated in have not yet been announced as of the Latest Practicable Date. For the provinces, autonomous regions or municipality cities where we are not selected in the collective statutory tender process, we strive to maintain our market presence by ensuring our products are selected as alternative medicines by the relevant bid evaluation committee(s). For example, our uremic clearance granule was selected as an alternative medicine in Guangxi province in 2011.

Our customers

Distributors

Almost all of our pharmaceutical products are sold to hospitals, medical institutions and pharmacies through our Independent Third Party distributors. Our third party distributors, with the support of our marketing team, resell and distribute our kidney medicines and medical contrast medium directly to hospitals, medical institutions and pharmacies or indirectly through other sub-distributors. They also support us in the sales and promotion of our other medicines with their own sales network. These third party distributors are our direct customers.

Our sales are supported by our marketing team and the extensive distribution network of our third party distributors. All our third party distributors are Independent Third Parties and GSP certified corporations located in different regions in the PRC where our pharmaceutical products are sold. We select our third party distributors based on several criteria, such as their distribution coverage, relationship with target hospitals, medical institutions and pharmacies, credit records, compliance history and financial strength. In addition, we require our third party distributors to provide proof of necessary permits, licences and certificates for the distribution of our pharmaceutical products, including medicines operation permits and GSP certificates, before establishing distribution relationships with us and from time to time during our distribution relationship. Recently, in the view of the healthcare reform and the new rural cooperation medical system (新型農村合作醫療) implemented by the PRC government, pharmaceutical products have become more affordable to Chinese citizens, especially to those who are living in small cities and rural areas. We continue to seek and to achieve deep market penetration by entering into distribution relationships with new creditable third party distributors with broader distribution

coverage and removing those with less competitive distribution capability. During the Track Record Period, our relationship with our major third party distributors remained stable. The changes in the number of our third party distributors for the periods indicated are set out below:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
As of 1 January	68[1]	145	104	105
Additions of new third party distributors	80	21	18	79
(Termination of existing third party distributors)	(3)	(62)	(17)	(9)
Net increase (decrease) in third party distributors	77	(41)	1	70
As of 31 December/30 June	145	104	105	175

Note:

(1) This includes Kangyuan's third party distributors which had business relationship with Kangyuan prior to our acquisition of 63.3% equity interest in Kangyuan in October 2009 but excludes those third party distributors, which did not enter into distribution agreements with Kangyuan prior to the year end of 2010.

In line with our strategy to increase our market share in the market of oral modern Chinese medicines for kidney disease and the market of medical contrast medium in the PRC, we strived to increase the geographical coverage of our pharmaceutical products and the quality and capability of our third party distributors. During the Track Record Period, we added 119 new third party distributors and terminated our contractual relationship with 82 third party distributors who had failed to pay us on time or follow the payment terms we required, or with small purchase amount or less competitive distribution coverage. In particular, after we completed the acquisition of 63.3% equity interest in Kangyuan in October 2009, we standardised Kangyuan's business relationship with its then third party distributors, which were mainly located in northern and eastern regions of the PRC, by entering into distribution agreements with them during 2010. This resulted in a net increase in the number of third party distributors in the same year. Following our cessation of production and sale of some of the other medicines which we acquired their production approvals when we first acquired 63.3% equity interest in Kangyuan in 2009, due to their lower profit margins, and to integrate the distribution network of Kangyuan with those of our own and with an aim to enhance the quality of our third party distributors, we terminated 62 third party distributors of our other medicines and third party distributors with small purchase amount or less competitive distribution coverage in 2011, which resulted in the net decrease in the number of third party distributors in that year. In 2012, we further improved the quality of our distribution network by replacing some of our third party distributors with those that had better track record or more competitive coverage. For the six months ended 30 June 2013, to achieve higher profit margin for our other medicines, we engaged additional third party distributors who were previously sub-distributors of our other medicines. This resulted in a net increase in the number of third party distributors in the same period. Notwithstanding these changes, our relationship with our major third party distributors has remained stable.

To assist our third party distributors to extend their distribution coverage, we try to locate for them sub-distributors that have established distribution network covering remote or less developed regions beyond the geographical coverage of our third party distributors. Our sub-distributors perform similar functions as our third party distributors, except that they are not our, but our third party distributors' direct customers. They usually cover more remote or less developed regions that

tend to have lower consumption power at the early stage of our market penetration. As the market becomes more mature and the sales from these more remote or less developed regions grow, we may consider to engage our sub-distributors directly as our third party distributors to achieve higher profit margin.

We enter into agreements with the sub-distributors that we locate for our third party distributors, and such sub-distributors are required to source our pharmaceutical products from our third party distributors and then sell our pharmaceutical products to hospitals, medical institutions and pharmacies. All of such sub-distributors are GSP certified corporations and Independent Third Parties. The changes in the number of sub-distributors which entered into sub-distribution agreements with us for the periods indicated are set out below:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
As of 1 January	563	961	645	570
Additions of new sub-distributors	575	199	206	175
(Termination of existing sub-distributors)	(177)	(515)	(281)	(165)
Net increase (decrease) in sub-distributors	398	(316)	(75)	10
As of 31 December/30 June	961	645	570	580

To assist our third party distributors to extend their distribution coverage, in particular those third party distributors of Kangyuan which we integrated into our distribution network after we completed the acquisition of 63.3% of its equity interest in 2009 as mentioned above, we engaged 575 additional new sub-distributors in 2010 to help cover the more remote or less developed regions. This resulted in a significant net increase in the number of sub-distributors in that year. However, we subsequently realised that the direct engagement of a large number of sub-distributors was not as cost efficient as we initially expected, and therefore in 2011, we terminated our relationship with (i) the unperformed sub-distributors engaged in 2010; and (ii) sub-distributors of our other medicines after we ceased to sell those other medicines, which resulted in a significant net decrease in the number of our sub-distributors in that year. In 2012 and in the first half of 2013, to further improve the quality of our sub-distributors, we replaced less competitive sub-distributors and terminated relationship with sub-distributors whose distribution coverage overlapped with our third party distributors as our third party distributors continued to grow and expand.

The following table shows the market allocation and distribution coverage of our third party distributors and sub-distributors which entered into sub-distribution agreements with us as of 30 June 2013:

Domestic region	Provinces, municipalities and autonomous regions	Number of third party distributors	Number of sub-distributors
Eastern China	Shanghai, Zhejiang, Jiangsu, Anhui, Henan and Shandong	48	132
Northern China	Inner Mongolia, Beijing, Liaoning, Jilin, Shanxi, Heilongjiang, Hebei and Tianjin	49	169
Southern China	Yunnan, Guangdong, Guangxi, Hunan, Fujian, Guizhou, Hubei, Xinjiang, Hainan and Jiangxi	60	214
Western China	Sichuan, Chongqing, Gansu, Qinghai, Ningxia, Tibet and Shaanxi	18	65
Total		**175**	**580**

As of 31 December 2010, 2011 and 2012 and 30 June 2013, the distribution network of our third party distributors and sub-distributors which entered into distribution or sub-distribution agreements with us covered approximately 32,000, 30,000, 33,000 and 26,000 hospitals, medical institutions and pharmacies in 31 provinces, autonomous regions, and municipality cities across the PRC, respectively. The decrease in the number of hospitals, medical institutions and pharmacies in 2011 was mainly due to the termination of our third party distributors of our other medicines after we ceased to sell those other medicines, and third party distributors which had small purchase amount or less competitive distribution coverage to hospitals, medical institutions and pharmacies of a smaller scale. The number as of 30 June 2013 is less than those at the end of the previous years as the smaller size hospitals, medical institutions and pharmacies in the more remote and less developed regions generally place their only orders with the distributors and/or sub-distributors in the fourth quarter of the year. Our Directors believe that as of 30 June 2013, a majority of our pharmaceutical products were sold to Class III hospitals by our third party distributors and sub-distributors.

Standard distribution agreements

We generally enter into annual distribution agreements with our third party distributors and sub-distributors, which are renewable upon mutual agreement among the parties. The following table summaries the key terms of these annual distribution agreements and sub-distribution agreements:

Key terms	Annual distribution agreements with third party distributors	Annual sub-distribution agreements with sub-distributors
Types of pharmaceutical products	Yes	Yes
Wholesale price of pharmaceutical products	Yes	No
Designated geographic region	Yes	Yes
Quarterly and annual purchase targets ..	Yes	Yes
Specified minimum purchase amounts and deposit	Yes(1)	No
Rewards		
in respect of meeting quarterly and annual purchase targets	Yes	Yes
in respect of sales to target hospitals or medical institutions	Yes(2)	No
in respect of payment method	Yes(3)	No
Qualification and compliance requirements	Yes	Yes
Performance monitoring and liabilities for breach of agreements	Yes	Yes

Notes:

(1) Such requirements apply to certain third party distributors of our other medicines.

(2) Such rewards are offered to certain third party distributors of our uremic clearance granule.

(3) Such rewards are offered to the third party distributors of our uremic clearance granule, kidney repair and edema alleviation granule and medical contrast medium who pay the purchase price in advance.

Designated geographic region

Our third party distributors and sub-distributors are prohibited from selling or promoting to other regions beyond those designated by us, but they are allowed to distribute products other than ours. As we are required to provide the hospitals or medical institutions with a list of our third party distributors and such hospitals or medical institutions have the sole discretion to determine the exclusive suppliers from which they source the relevant pharmaceutical products, we do not designate the target hospitals or medical institutions in a designated geographic region in the distribution agreements with our third party distributors. However, in practice, the relevant hospitals or medical institutions would only select one supplier as their exclusive supplier of the relevant pharmaceutical product for such hospitals or medical institutions. Therefore, we consider that there would not be any cannibalisation among our third party distributors.

Specified minimum purchase amount and deposit

We set annual and quarterly purchase targets for our third party distributors and sub-distributors which entered into sub-distribution agreements with us with reference to their credit history, distribution network, historical purchase amount and sales performance. When determining the purchase targets for our sub-distributors, we also take into account the relevant annual and quarterly purchase targets of the third party distributors from whom they purchase our products. For certain distributors of our other medicines, in addition to the quarterly and annual purchase targets, they are required to pay certain amount of deposits and purchase a minimum amount of our pharmaceutical products each year. We may terminate the distribution agreement if the distributor fails to purchase the minimum amount stipulated in the relevant distribution agreement.

Rewards

In general, we offer rewards to both our third party distributors and sub-distributors which have met the quarterly and annual purchase targets stipulated in the annual distribution or sub-distribution agreements. Such rewards are normally in the form of discount and are made every six months depending on the actual purchase amount from the relevant third party distributor or sub-distributor. The discount is normally in the range of 1.6% to 3.0% of the wholesale price of the relevant product.

We may also offer additional discount of RMB2.06 per pack of 75 grams of our uremic clearance granule to our third party distributors. Such rewards are made quarterly depending on factors including the target hospitals or medical institutions of the third party distributors, and the actual sales volume of the third party distributors to the target hospitals or medical institutions.

To encourage the third party distributors of our uremic clearance granule, kidney repair and edema alleviation granule and medical contrast medium to settle payment before delivery, we offer them additional discount in the range of 0.5% to 1.0% of the wholesale price of the relevant product. Such rewards are also normally made every six months depending on the form of payment, such as payment by cash or bank acceptance bills.

Qualification and compliance requirements

We require our third party distributors and sub-distributors to obtain the relevant licenses, permits and certificates required for their operation, including GSP certificates, and to comply with relevant laws and regulations as well as to follow our sales and pricing policies. We also designate the geographic region to each of our third party distributors and sub-distributors.

Performance monitoring and liabilities for breach of agreements

We closely monitor the performance of our third party distributors and their compliance with the terms of the distribution agreements. Our third party distributors are required to provide us with information in relation to our pharmaceutical products that they distribute, such as inventory level and sales volume, on a monthly basis. We will contact our third party distributors if we note that they have excessive inventories or if their sales volume is significantly below the agreed quarterly or annual purchase targets, and will provide marketing assistance if necessary. Our third party distributors are liable for breaches of the relevant distribution agreements and are responsible for indemnifying us for damages and losses as a result of such breaches. We are also entitled to cancel the rewards that they have earned or terminate the distribution agreements in the event of material breach of the agreements by our third party distributors, such as their failure to sell our pharmaceutical products within the regions designated under the distribution agreements.

We have also adopted measures to monitor the performance of the sub-distributors that have entered into sub-distribution agreements with us and their compliance with the terms of the sub-distribution agreements. Sub-distributors are required to provide us with the key terms of their agreements with our third party distributors, including the quantity and purchase amount of our pharmaceutical products they source from our third party distributors and delivery details. They are also required to provide us with sales information of our pharmaceutical products to end customers on a monthly basis. We will contact our sub-distributors if we note that their sales volume is significantly below the agreed quarterly or annual purchase targets, and will provide marketing assistance if necessary. Sub-distributors are liable for breaches of the relevant sub-distribution agreements and are responsible for indemnifying us for damages and losses as a result of such breaches. We are also entitled to cancel the rewards that they have earned or terminate the sub-distribution agreements in the event of material breach of the sub-distribution agreements by the sub-distributors. Further, our third party distributors can assist us to monitor the performance of the sub-distributors that have entered into sub-distribution agreements with us. In the event of breach by the sub-distributors, our third party distributors may, at our request, stop supplying our pharmaceutical products to such defaulting sub-distributors. We rely on our third party distributors to monitor the performance of the other sub-distributors who have no contractual relationship with us. To the best knowledge of our Directors, as of 31 December 2010, 2011 and 2012 and 30 June 2013, all of our sub-distributors, including those we have no contractual relationship with, were Independent Third Parties.

According to our accounting policies, revenue is normally recognised when ownership of the pharmaceutical products and the related risk and rewards are accepted by our customers. As we only select third party distributors with a strong credit record and steady cash flow, we had not experienced any material delay in payment by our third party distributors during the Track Record Period and up to the Latest Practicable Date. We only accept product returns for defective products or products damaged during transportation and do not accept return of any unsold products. Our third party distributors have to report to us any defective products or products damaged during transportation within one month upon their receipt of such products and may only return such products after our examination and approval. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material product return or made any product recalls due to any quality defects or damages during transportation.

Sales to our five largest customers accounted for 32.3%, 39.2%, 38.3% and 38.6%, respectively, of our turnover for the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013. During the same periods, sales to our largest customer which is a leading distributor of pharmaceutical products in the PRC and is listed on the Stock Exchange, accounted for 14.0%, 17.9%, 17.9% and 20.3%, respectively, of our turnover. As of the Latest Practicable Date, we maintain an average of a five-year relationship with a majority of our customers. None of our Directors or their respective associates and none of our existing Shareholders (to the best knowledge of our Directors) who own more than 5% of the issued share capital of our Company had any interest in any of our five largest customers during the Track Record Period. To the best knowledge of our Directors, during the Track Record Period and as of the Latest Practicable Date, none of our Company, subsidiaries, Shareholders, Directors and senior management members as well as their respective associates had any interest in our customers.

During the Track Record Period, we did not have any material disputes with our customers.

Credit policy

We normally collect payment from our third party distributors before delivery in the form of cash or bank acceptance bills with maturities of no more than 180 days. For third party distributors with established business relationship and good credit history, a credit term of no more than 180 days may be granted. The length of credit terms are determined after taking into account of the business scale, credit history and distribution region of and type of pharmaceutical products purchased by our third party distributors.

In some cases, we may grant to our third party distributors a credit limit for up to three months at the beginning of each quarter, and such third party distributors are required to settle payment for their purchase on credit by the 25th day of the last month in that particular quarter. The maximum credit amount granted to a third party distributor in a particular year is 5% to 10% of the agreed annual sales target, depending on various criteria, including credit history and annual sales target of such third party distributor. No further credit will be provided for any subsequent placement of orders from these third party distributors once their maximum credit amount is exceeded and they are required to make payment to us before delivery of our pharmaceutical products. On a limited and case-by-case basis, we may grant similar credit limits for up to 12 months to our third party distributors at the beginning of a calendar year. Our Directors consider that the above credit arrangement is not uncommon in the PRC pharmaceutical industry.

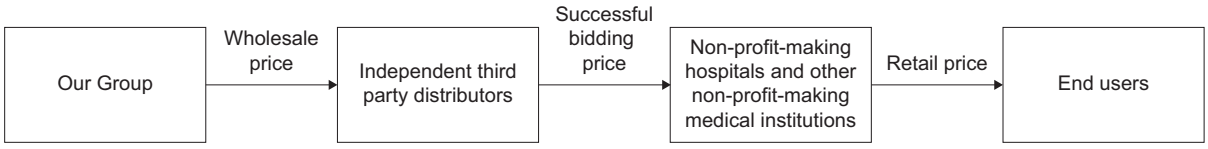
Product pricing policy

As of the Latest Practicable Date, five of our 11 current pharmaceutical products, including our uremic clearance granule and our gadopentetate dimeglumine injection, were subject to retail price controls imposed by the PRC government in the form of maximum retail prices. As a result, these products cannot be sold to the end users above the prescribed retail prices.

According to the Notice on Issuing Certain Regulations on the Trial Implementation of Centralised Procurement of Pharmaceutical Products by Medical Organizations and the Notice on Further Improvement on the Implementation of Centralised Procurement of Pharmaceutical Products by Medical Organisations, except for those stipulated otherwise, all procurement of pharmaceutical products by non-profit-making hospitals and other non-profit making medical institutions established by the PRC government at the county level or higher has to be conducted through a collective statutory tender process that involves bidding by pharmaceutical manufacturers of relevant products. A bid evaluation committee of the local government of its designated institutions then selects the winning bids to supply a particular type of medicine. In some cases, the bid evaluation committee may also select certain pharmaceutical manufacturers to supply alternative medicines with unique curative effects. Please also refer to the section headed "BUSINESS – MARKETING AND DISTRIBUTION – Our marketing activities" in this prospectus. Non-profit-making hospitals and other non-profit-making medical institutions purchase the pharmaceutical products selected at the collective statutory tender process at the successful bidding price.

Although the PRC government does not impose restrictions upon wholesale price at which we sell our products to our third party distributors, the adjustments of retail prices, if material, may have an indirect impact on (i) our products' successful bidding prices, being the prices at which non-profit-making hospitals and other non-profit-making medical institutions purchase the pharmaceutical products selected at the collective statutory tender process; and (ii) our products' wholesale prices, being the prices we sell our products to our third party distributors, and therefore affecting our turnover and profitability. Please refer to the section headed "REGULATIONS – PRICE CONTROLS" in this prospectus for further information on the PRC government's imposition of retail price controls over pharmaceutical products.

The following diagram illustrates the different prices at which our products are sold to different purchasers:



Since April 2010, our uremic clearance granule has enjoyed differentiated pricing treatment (差別定價) in Guangdong province as approved by Guangdong Pricing Bureau, whereby a higher maximum retail price of our uremic clearance granule for Guangdong province can be set and the pharmaceutical products procurement office in Guangdong province is allowed to adjust upward the successful bidding price of our uremic clearance granule. Such treatment indirectly allows us to increase the wholesale price of our uremic clearance granule at which we sell to our third party distributors in Guangdong province. Pursuant to the Management Methods in relation to Differentiated Pricing Treatment of Pharmaceutical Products issued by Guangdong Pricing Bureau (廣東省物價局關於藥品差別定價的管理辦法), and the relevant announcement issued by the Guangdong Pricing Bureau, specific pharmaceutical products approved by the Guangdong Pricing Bureau can be sold at pre-determined maximum retail prices higher than the maximum retail prices of such products imposed by the central government of the PRC and implemented in other provinces, autonomous regions and municipality cities. Pharmaceutical products which are patent-protected, whose production is encouraged by the government or which have outstanding quality, therapeutic effects and safety are entitled to apply for the differentiated pricing treatment. The Guangdong Pricing Bureau normally reviews such pre-determined differentiated retail prices and makes necessary adjustment every two years. In addition, when there are substantial differences between the successful bidding price and the differentiated maximum retail price of an approved pharmaceutical product, the Guangdong Pricing Bureau will also adjust such differentiated maximum retail price. During the Track Record Period, Guangdong Pricing Bureau and the pharmaceutical products procurement office in Guangdong province did not make any other adjustment to the maximum retail price or the successful bidding price of our uremic clearance granule. For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our Group's turnover generated in Guangdong province, including those relating to the sale of our uremic clearance granule, amounted to RMB42.7 million, RMB37.6 million, RMB52.5 million and RMB26.1 million, respectively, representing 14.1%, 9.7%, 11.5% and 11.4% of our total turnover for the same periods, respectively.

As advised by our PRC Legal Advisers, the differentiated pricing treatment policy is approved by the NDRC in compliance with the national rules and regulations relating to price controls, and it normally will not be revoked once such differentiated pricing treatment is granted unless any of the following circumstances occurs: (i) the production approval, GMP certificate or other approval documents obtained by the relevant manufacturer is revoked or suspended; (ii) the relevant pharmaceutical product is subject to investigation or warning due to quality or pricing issues; (iii) the patent or protection of the relevant pharmaceutical product has expired; (iv) any pharmaceutical product manufactured by the relevant manufacturer causes serious accidents; (v) the relevant pharmaceutical manufacturer submits false materials or bribes when applying for such differentiated pricing treatment; or (vi) other misconducts of the relevant pharmaceutical manufacturer that cause severe adverse effects. Please refer to the section headed "REGULATIONS – PRICE CONTROLS" in this prospectus for further details of the differentiated pricing treatment in Guangdong province.

For the pharmaceutical products which are subject to retail price controls imposed by the PRC government in the form of maximum retail prices, we set our wholesale prices taking into consideration of: (i) the maximum retail prices of the relevant pharmaceutical products set by the government; (ii) the successful bidding prices of such pharmaceutical products (if applicable); and (iii) the profit margin of our third party distributors and non-profit-making hospitals and other non-profit-making medical institutions as permitted by the relevant PRC laws.

The following table sets out the average wholesale prices, average successful bidding prices, average retail prices and maximum retail prices of our products which are subject to retail price controls by the PRC government as of the Latest Practicable Date during the Track Record Period:

	Size per unit	Average wholesale price				Average successful bidding price				Average retail price[1]				Maximum retail price imposed by the PRC government			
		For the year ended 31 December			For the six months ended 30 June	For the year ended 31 December			For the six months ended 30 June	For the year ended 31 December			For the six months ended 30 June	For the year ended 31 December			For the six months ended 30 June
		2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
		(RMB)	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*
Kidney medicines																	
Uremic clearance granule	75 grams	47.3	46.2	46.0	45.3	56.5[2]	56.1[2]	55.9[2]	55.8[2]	59.3	58.6	58.2	58.1	64.5[3]	64.5[3]	64.5[3]	64.5[3]
	90 grams	53.9	52.9	52.7	52.3	67.0[2]	67.0[2]	66.9[2]	67.1[2]	70.3	69.7	69.6	68.9	77.4[3]	77.4[3]	77.4[3]	77.4[3]
Medical contrast medium																	
Gadopentetate dimeglumine injection	10ml	71.4	67.1	63.8	72.4	99.1	94.4	92.4	90.9	98.9	98.4	97.8	95.8	117.0	117.0	117.0	106.0
	12ml	84.4	81.1	80.7	81.8	110.2	107.5	105.5	104.5	115.2	113.3	112.5	110.8	135.0	135.0	135.0	122.0
	15ml	99.5	95.0	96.6	95.5	132.3	126.1	123.3	121.3	134.9	132.4	131.5	130.8	160.0	160.0	160.0	145.0
	20ml	122.1	118.3	118.8	118.9	168.5	159.2	156.2	153.1	168.9	165.9	165.7	164.1	199.0	199.0	199.0	180.0
Other medicines																	
Compound amino acid injection (18AA-V)	250ml	5.2	5.8	5.9	6.7	41.0	41.5	42.0	27.1	41.9	43.5	43.8	25.9	N/A[4]	N/A[4]	N/A[4]	26.2
Alfacalcidol capsule[5]	4μg	9.6	10.7	5.2	7.1	19.1	18.6	18.3	18.3	19.7	18.9	17.9	18.2	27	27	20.5	20.5
Doxofylline and glucose injection	100ml	4.0	3.2	3.3	3.3	40.5	40.4	40.2	38.1	47.1	45.3	43.9	42.4	56.8	56.8	56.8	44.9

Source: Company (for average wholesale prices and average successful bidding prices) and SMERI Report (for average retail prices and maximum retail prices imposed by the PRC government)

Notes:

(1) The average retail price is the weighted average of the retail price of the relevant product, and may not reflect the actual retail price in a certain province or region. Accordingly, the average retail price may be lower than the average successful bidding price for some products as the average successful bidding price is not calculated on a weighted average basis.

(2) The successful bidding prices were adjusted upward from RMB54.4 (75 grams) and RMB65.3 (90 grams) to RMB55.7 (75 grams) and RMB66.8 (90 grams) by the pharmaceutical products procurement office in Guangdong province following the determination of differentiated maximum retail price of our uremic clearance granule by Guangdong Pricing Bureau since April 2010.

(3) The maximum retail price in Guangdong province was adjusted upward to RMB66.0 (75 grams) and RMB79.2 (90 grams) as our uremic clearance granule has enjoyed differentiated pricing treatment (差別定價) since April 2010.

(4) Compound amino acid injection (18AA-V) was not subject to the price controls imposed by the PRC government until February 2013.

(5) Alfacalcidol capsule was also manufactured in the dosage of 8μg which was only introduced and launched to the market in July 2013.

There was no adjustment to the maximum retail prices imposed by the PRC government on our uremic clearance granule during the Track Record Period. In 2012, the PRC government lowered the maximum retail price of our alfacalcidol capsule. In 2013, the PRC government imposed the maximum retail price on compound amino acid injection (18AA-V) and lowered the maximum retail prices of doxofylline and glucose injection and gadopentetate dimeglumine injection. For our pharmaceutical products which are subject to retail price controls imposed by the PRC government, their average retail prices were all lower than their corresponding maximum retail prices for the relevant periods. Our Directors consider that, notwithstanding the adjustments in the maximum retail prices of some of our products, the PRC government's price control policy for retail prices of pharmaceutical products did not have a material adverse effect on us during the Track Record Period. We aim to mitigate any potential adverse effect of the price control policy of the PRC government by enhancing our research and development capability in order to develop products that are unique, innovative, highly competitive and with higher profit margin, improving the quality of our pharmaceutical products and diversifying our existing product portfolio.

For the remainder of our pharmaceutical products that are not subject to retail price controls, we may set the manufacturer suggested retail prices on the basis of a number of factors, including cost of production, research and development, and sales and marketing, changes in the level of supply and demand, and prices of competing products. Besides, if our pharmaceutical products fail to win in the collective statutory tender process but are selected as alternative medicines by the bid evaluation committee, we are entitled to determine the prices at which our third party distributors sell these products to the non-profit-making hospitals or other non-profit-making medical institutions.

After-sale service

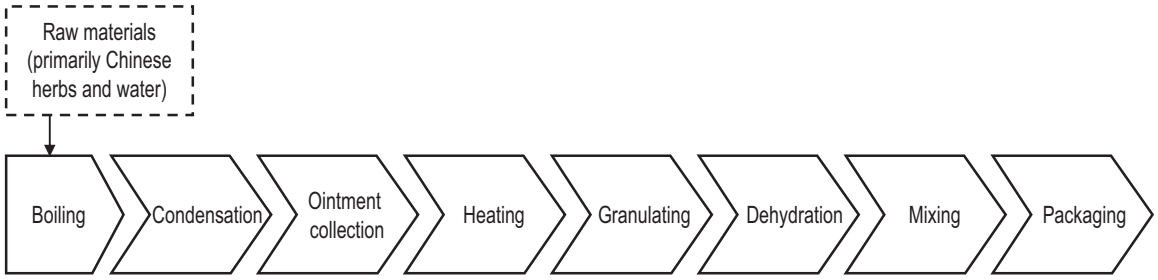
It is our policy that all complaints and requests from our customers and end-users shall be handled promptly upon receipt. Our customer hotline number and address are printed on the package of our pharmaceutical products and are also published on our website. Our customers and end-users can reach us through the customer hotline or by mail should they have any complaints or queries in relation to our pharmaceutical products. We also post on our website the therapeutic effects and the latest research and development status of our pharmaceutical products and daily health care information in respect of relevant diseases. In addition, we have our own magazine Consun Health Garden with information such as kidney disease prevention and control, which is published quarterly and distributed to our end-users to provide them with health care information for free.

PRODUCTION

Production process

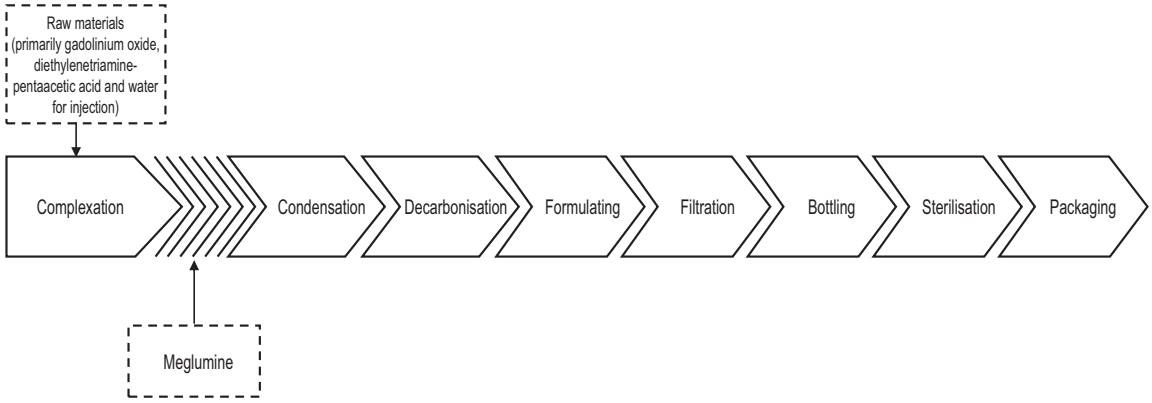
We manufacture our pharmaceutical products in various dosages and forms, including granules, injection, soft capsules, capsules, pills and tablets. The following charts set out the key production steps in the manufacturing process of two of our major products, uremic clearance granule and gadopentetate dimeglumine injection.

Uremic clearance granule



The ingredients required for the production of our uremic clearance granule are extracted from processed Chinese herbs and made into concentrates and granulised. The granules are then dehydrated and mixed with other auxiliary materials to form uremic clearance granule. It typically takes about nine to twelve days for the production of a batch of uremic clearance granule.

Gadopentetate dimeglumine injection



Gadolinium oxide (氧化釓), diethylenetriaminepentaacetic acid (二乙三胺五醋酸) and water for injection are subject to complexation process and condensed to form gadopentetate solution. Meglumine (葡甲胺) is then added to react with the gadopentetate solution. The solution is then condensed, decarbonised, formulated and filtrated to form gadopentetate dimeglumine injection. It typically takes about ten days for the production of a batch of gadopentetate dimeglumine injection.

Production facilities

We manufacture our pharmaceutical products in one production plant located at Guangzhou, Guangdong province and two production plants located at Tongliao, Inner Mongolia autonomous region. As of the Latest Practicable Date, our three production plants have a total gross floor area of approximately 36,143.1 sq.m. These production plants house 13 production lines in operation which include production lines for injection, granules, tablets, pills, capsules and oral solution. Five of these production lines are located in Guangzhou, Guangdong province, for the production of kidney repair and edema alleviation granule, small dosage of gadopentetate dimeglumine injection, renal supplement and impotence cure oral solution (補腎填精口服液), jin-gang pill (金剛丸), and cetirizine hydrochloride oral solution (鹽酸西替利嗪口服液). The other eight production lines are located at our two production plants in Tongliao, Inner Mongolia autonomous region, for the production of other products, including uremic clearance granule. We have obtained GMP certificates for all our production facilities in accordance with the laws and regulations of the PRC.

Our primary production plants for the production of most of our modern Chinese medicines are in Tongliao, Inner Mongolia autonomous region, within close proximity of the plantation bases of the key Chinese herbs used in our production. This facilitates the delivery and supply of raw materials, and thereby reducing the production cost. In determining the location of our production plants, we also take into account the cost of power and water supply.

The primary equipment and machinery we use for production, including extracting tank, dual-effect concentrator, granulator, blender, filling machine, laminating machine, glass reactor, dryer, bottle washing machine, high-temperature tunnel oven, mixing machine, capping machine, steam steriliser machine and labeling machine, were purchased in the PRC. We believe that our equipment, together with the production know-how developed by our research and development team, have enabled us to consistently produce quality products.

The following table illustrates our production capacity and utilisation rates for our uremic clearance granule, gadopentetate dimeglumine injection and kidney repair and edema alleviation granule during the Track Record Period:

		Year ended 31 December									Six months ended 30 June		
		2010			2011			2012			2013		
Production line	*Unit*	*Designed production capacity*	*Production volume*	*Utilisation rate (%)*	*Designed production capacity*	*Production volume*	*Utilisation rate (%)*	*Designed production capacity*	*Production volume*	*Utilisation rate (%)*	*Designed production capacity*	*Production volume*	*Utilisation rate (%)*
Uremic clearance granule	Tonne	270.0[(1)(2)]	489.5	181.3[(2)(3)]	270.0[(1)(2)]	425.8	157.7[(2)(3)]	360.0[(1)(2)(4)]	582.6	161.8[(2)(3)]	258.3[(5)]	340.0	131.6[(6)]
Kidney repair and edema alleviation granule	Tonne	20.8[(1)(2)]	1.1[(7)]	5.3	20.8[(1)(2)]	4.0	19.2	20.8[(1)(2)]	14.1	67.8	10.4[(1)]	5.2	50.0
Gadopentetate dimeglumine injection	Litre	10,205.0[(8)]	6,406.0	62.8	10,205.0[(8)]	8,739.0	85.6	10,205.0[(8)]	10,373.0	101.6[(9)]	5,102.5[(8)]	7,074.0	138.7[(10)]

Notes:

(1) The designed production capacity for a production line is computed on the basis of 335 days per year and 16 hours (with two work shifts of eight hours) per day.

(2) The production line of kidney repair and edema alleviation granule can also be used to produce uremic clearance granule with a designed production capacity of approximately 263 tonnes per year, computed on the basis of 335 days per year and 16 hours (with two work shifts of eight hours) per day.

(3) The actual production activities were conducted using the production line(s) of uremic clearance granule and occasionally the production line of kidney repair and edema alleviation granule, and on three shifts of eight hours per day occasionally to meet the demand for our uremic clearance granule, which resulted in the utilisation rate for such relevant period exceeding 100%.

(4) This represents the weighted average designed production capacity for the year as the designed production capacity increased from 270.0 tonnes to 810.0 tonnes per year as a result of the upgrading of the existing production line in November 2012.

(5) This represents the weighted average designed production capacity for the six months ended 30 June 2013 as (i) the designed production capacity decreased from 810.0 tonnes per year to 540 tonnes per year for the four months ended 30 April 2013 due to the expiry of the GMP certificates for certain parts of our production line in January 2013; and (ii) the designed production capacity increased to 940.0 tonnes per year as a result of the upgrading of our existing production line after the renewal of GMP certificates for certain parts of our production lines in June 2013.

(6) The actual production activities were conducted on three shifts of eight hours per day occasionally to meet the demand for our uremic clearance granule, which resulted in the utilisation rate for such relevant period exceeding 100%.

(7) Small scale production of edema alleviation granule commenced in 2009 and such products were subsequently sold in 2010.

(8) The designed production capacity for a production line is computed on the basis of 264 days per year (or 132 days for the six months ended 30 June 2013) and eight hours (with one work shift) per day.

(9) The actual production days were slightly over 264 days due to overtime on weekends or during public holidays to meet the demand for our gadopentetate dimeglumine injection, which resulted in the utilisation rate for such relevant period exceeding 100%.

(10) The actual production days were slightly over 132 days due to overtime on weekends or during public holidays and was conducted on two shifts of eight hours per day occasionally in order to stock up our inventories prior to the expected suspension of production for upgrading of our production line of gadopentetate dimeglumine injection in Guangzhou for GMP compliance inspection by the relevant government authorities which is expected to last for three to six months during late 2013 to early 2014, which resulted in the utilisation rate for such relevant period exceeding 100%.

At the beginning of each year, our production team meets with our marketing team to discuss the anticipated level of sales orders for that year. Based on the anticipated annual sales volume, our production team then formulates a general product supply plan for that year. The monthly production plans are also determined with reference of such annual product supply plan and the then current sales volume and level of inventories.

We upgraded certain parts of the production line of our uremic clearance granule in early 2013 due to the expiry of the GMP certificates for these parts of the production line in January 2013. The upgrading of such parts and the renewal of GMP certificates were completed in May 2013. Besides, to prepare for the GMP compliance inspection by the relevant governmental authorities, the production of our gadopentetate dimeglumine injection in Guangzhou, Guangdong province will be suspended for upgrading of the relevant production line, which is expected to last for three to six months during late 2013 to early 2014. Our Directors consider that there will not be any significant impact on our Group's business and financial performance as we have prepared and will have sufficient inventories to satisfy the demand during the suspension period.

To cope with the anticipated increasing demand in the high growth market of MRI medical contrast medium in the PRC which has an expected market size of RMB1.4 billion in 2017 according to SMERI Report, we have commenced the construction of a workshop in our new production plant in Guangzhou, Guangdong province which will house one production line for our gadopentetate dimeglumine injection and one production line for our three newly developed CT medical contrast mediums. The new production line for our gadopentetate dimeglumine injection is expected to be completed by the end of 2013 and in full operation in the first half of 2014, and our annual production capacity of gadopentetate dimeglumine injection is expected to increase from approximately 10,000.0 litres to 39,000 litres. The production line for our three newly developed CT medical contrast medium with designed annual production capacity of approximately 499,000 litres which is expected to be completed by the end of 2014 and in full operation in the first half of 2015.

To cope with the anticipated increasing demand in the high growth market of oral modern Chinese medicine for kidney disease in the PRC which has an expected market size of RMB4.5 billion in 2017 according to SMERI Report, we also plan to purchase new production facilities in the production plant in Tongliao, Inner Mongolia autonomous region for the production of uremic clearance granule and various other medicines. When the new production line of uremic clearance granule is in full operation, which is expected to be in the second half of 2015, our annual production capacity of uremic clearance granule is expected to increase from approximately 940.0 tonnes to 2,290.0 tonnes.

RAW MATERIALS

Our primary raw materials include Chinese herbs which are used for the production of our modern Chinese medicines such as uremic clearance granule and kidney repair and edema alleviation granule, chemicals which are used in the production of our chemical medicines, packaging materials and other auxiliary materials.

The following table sets out our purchases of the major raw materials for the periods indicated:

	Years ended 31 December						Six months ended 30 June	
	2010		2011		2012		2013	
	RMB ('000)	*% of purchases of raw materials*	*RMB ('000)*	*% of purchases of raw materials*	*RMB ('000)*	*% of purchases of raw materials*	*RMB ('000)*	*% of purchases of raw materials*
Chinese herbs								
Chinese herb A	1,036	1.8	4,145	5.2	7,325	8.0	5,299	11.3
Chinese herb B	3,899	6.8	6,556	8.1	7,259	7.9	4,135	8.8
Atractylodes macrocephala koidz (白朮)	2,914	5.1	5,139	6.4	4,105	4.5	2,210	4.7
Processed polygonum multiflorum root (制何首烏)	1,906	3.3	3,024	3.8	3,892	4.2	2,203	4.7
Poria cocos (茯苓)	1,875	3.3	3,812	4.7	3,118	3.4	1,753	3.7
Chinese herb C	1,370	2.4	2,155	2.7	2,951	3.2	1,782	3.8
Ginseng (人參)	3	0.0	469	0.6	2,549	2.8	336	0.7
Astragalus mongholicus (黃芪)	830	1.4	1,861	2.3	2,425	2.6	1,749	3.7
The root of red-rooted salvia (丹參)	1,909	3.3	1,904	2.4	2,170	2.4	1,570	3.3
Panax notoginsenosides (三七總皂苷)	3,240	5.7	1,188	1.5	2,144	2.3	0	0.0
Others	7,919	13.8	11,810	14.7	13,282	14.5	5,824	12.5
Sub-total	26,901	46.9	42,063	52.4	51,220	55.8	26,861	57.2
Chemicals								
Diethylenetriaminepentaacetic acid (二乙三胺五醋酸)	1,035	1.8	1,656	2.1	1,794	2.0	811	1.8
Xylitol (木糖醇)	422	0.8	831	1.0	1,565	1.7	0	0.0
Meglumine (葡甲胺)	310	0.5	682	0.9	900	1.0	390	0.8
Hydrochloride histidine (鹽酸組氨酸)	247	0.4	570	0.7	952	1.0	146	0.3
Gadolinium oxide (氧化釓)	72	0.1	1,322	1.6	800	0.9	800	1.7
Others	3,101	5.4	2,721	3.4	4,523	4.9	1,116	2.4
Sub-total	5,187	9.0	7,782	9.7	10,534	11.5	3,263	7.0
Packaging and other materials	25,235	44.1	30,495	37.9	30,078	32.7	16,762	35.8
Total	57,323	100.0	80,340	100.0	91,832	100.0	46,886	100.0

For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, Chinese herbs and chemicals accounted for approximately 55.9%, 62.1%, 67.3% and 64.2%, respectively, of our total purchases of raw materials for the same periods. Almost all of our pharmaceutical products were sold to the non-profit-making hospitals or other non-profit-making medical institutions through the collective statutory tender processes during the Track Record Period. As the successful bidding prices of our pharmaceutical products are fixed by the collective statutory tender processes and certain level of profit margin should be allowed for our third party distributors for the distribution of our pharmaceutical products, there is usually limited room for us to adjust our wholesale prices in case of price fluctuation of our raw materials. We have a dedicated procurement team comprising a procurement manager, who is a qualified Chinese medicines procurement officer (中藥購銷員) recognised by the Ministry of Human Resources and Social

Security of the PRC (中華人民共和國人力資源和社會保障部), and a procurement officer, both of whom have over four years of experience in the PRC pharmaceutical industry, and are responsible for (i) monitoring price of our major raw materials on a regular basis, (ii) conducting quarterly analysis to anticipate potential changes in the price of our major raw materials and to ensure that our purchase prices are in line with the prevailing market prices, (iii) identifying alternative raw materials suppliers who provide the most competitive prices, (iv) negotiating and determining the purchase prices under the annual supply agreements with our suppliers for the next year, with reference to the market data obtained during the regular monitoring of and quarterly analysis on the prices of our raw materials, and (v) enhancing our production process to minimise waste of raw materials and the potential impact from any price fluctuation of our raw materials. Our Directors believe that the cost control measures we adopt enable us to have a more comprehensive and better understanding of the fluctuation of prices of our raw materials, increase our bargaining power, and allow us to obtain more competitive prices when negotiating the annual supply agreements with our suppliers.

The following table shows the historical prices of the major raw materials used for our production for the periods indicated:

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	Average price per kilogram	Average price per kilogram	Average price per kilogram	Average price per kilogram
	RMB	*RMB*	*RMB*	*RMB*
Chinese herb A[(1)]	20.6	65.4	95.2	120.4
Chinese herb B[(1)]	119.5	156.0	141.6	141.6
Processed polygonum multiflorum root (制何首烏)[(1)]	23.4	29.2	30.0	30.1
Atractylodes macrocephala koidz (白朮)[(1)(2)]	39.1	49.5	28.3	30.1
The root of red-rooted salvia (丹參)[(1)]	21.2	18.6	17.8	19.3
Poria cocos (茯苓)[(1)(2)]	26.2	37.1	22.1	23.9
Chinese herb C[(1)(2)]	54.1	69.1	74.1	80.5
Astragalus mongholicus (黃芪)[(1)(2)]	15.2	22.2	22.1	25.7
Ginseng (人參)[(2)]	159.3	327.9	424.8	424.3
Panax notoginsenosides (三七總皂苷)[(3)]	3,823.4	4,205.1	6,324.8	–
Gadolinium oxide (氧化釓)[(4)]	102.6	807.1	683.8	684.0
Diethylenetriaminepentaacetic acid (二乙三胺五醋酸)[(4)]	589.7	589.7	589.7	589.8
Meglumine (葡甲胺)[(4)]	204.3	198.6	256.4	222.2
Hydrochloride histidine (鹽酸組氨酸)[(5)]	324.8	324.8	332.1	333.3
Xylitol (木糖醇)[(5)]	21.9	23.8	24.8	–[(6)]

Notes:

(1) This is mainly for the production of our uremic clearance granule.

(2) This is mainly for the production of our kidney repair and edema alleviation granule.

(3) This is mainly for the production of our thrombolytic injection which ceased production in August 2012.

(4) This is mainly for the production of our gadopentetate dimeglumine injection.

(5) This is mainly for the production of our compound amino acid injection (18AA-V).

(6) We used our inventories of xylitol for production of our compound amino acid injection (18AA-V) during the six months ended 30 June 2013.

Our Directors believe that the fluctuation of the prices of the above major raw materials during the Track Record Period is primarily due to weather and harvest conditions and the market demand of the relevant raw materials in the PRC during the relevant period. Fluctuation of market price for the raw materials did not have a material impact on our costs of raw material during the Track Record Period as the increase in prices of certain raw materials was partially offset by the decrease in prices of certain other raw materials during the same period.

We adopt stringent supplier selection procedures, in which members of our production team, quality management team and procurement team are involved. Potential suppliers are assessed based on various factors including their pricing, quality and stability of materials and services, scale of operation, market reputation and production capacity. Our suppliers are required to possess all licences and permits necessary to conduct their operations, which include business licences, tax registration certificates and GMP or GAP certificate. Our quality management team conducts quality inspection on the samples of raw materials provided by the potential suppliers to ensure that the quality and stability of the raw materials meet our standards. We visit the potential suppliers to inspect their production facilities, so as to ensure that their production capacity is able to meet our requirements. We also examine their quality assurance systems to assess the quality and standard of the suppliers' production process. Only those suppliers which fulfil all our selection criteria are selected. We maintain an approved suppliers list and we only source raw materials from these suppliers. The approved suppliers list is reviewed annually. Those suppliers who fail to meet our selection criteria are removed from our approved suppliers list. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant problems with the quality of raw materials provided by our suppliers, any material limitations in the supply or any shortage of our raw materials. Our Directors believe that there will continue to be sufficient supply of our major raw materials that meet our required quality for the planned expansion of our production as most of our suppliers, which have long-term business relationship with us, are major suppliers of the relevant raw materials in the PRC. We also maintain a list of alternative suppliers from whom we may source our major raw materials in the event of any limitation in the supply of raw materials.

We generally enter into supply agreements with our suppliers on an annual basis, which are renewable upon mutual agreement. We had not experienced any difficulties in renewing our supply agreements during the Track Record Period. Major terms of the supply agreements generally include the annual supply quantities, price (which can be adjusted to a mutually agreed price if the market price fluctuates by more than 15% of that specified in the supply agreements), quality requirements, return policy, payment terms and indemnification for breach of agreement. During the Track Record Period, we were able to adjust the purchase prices of our raw materials during the term of the annual supply agreement when there was significant price fluctuation. We are not subject to any penalty if we fail to meet the annual supply quantities specified in the agreement. Most of our raw material suppliers grant to us an average credit period of 30 days, while some of our raw material suppliers such as those supplying customised raw materials require us to make full payment before delivery. We are entitled to return the raw materials that fails to meet our quality standards to the suppliers. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any penalty for failing to meet the annual supply quantities specific in the agreement and had not encountered any delay in delivery of raw materials by our suppliers that significantly affected our manufacturing operations.

For the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our aggregate purchases from our five largest suppliers, including GMP or GAP certified suppliers of Chinese herbs and suppliers of packaging materials, represented 58.1%, 62.4%, 62.7% and 71.6% of our total purchase amount of raw materials, respectively. During the same periods, purchases from our largest supplier represented 37.9%, 36.1%, 40.7% and 43.7%, respectively, of our total purchase amount of raw materials. As of the Latest Practicable Date, we maintain an average of a five-year relationship with each of these major suppliers.

During the Track Record Period, none of our Directors or their respective associates and none of our existing Shareholders who (to the best knowledge of our Directors) own more than 5% of the issued share capital of our Company had any interest in any of our five largest suppliers.

During the Track Record Period and up to the Latest Practicable Date, we had not had any material disputes with our suppliers.

QUALITY MANAGEMENT

High quality of our pharmaceutical products is vital to our success. We maintain a stringent quality control system in accordance with the relevant PRC laws, regulations and rules. Our emphasis on quality control is also recognised by the industry. For example, as we were the first pharmaceutical company which obtained the New Medicine Certificate and production approval for manufacture and sale of a MRI medical contrast medium in the PRC, the CFDA adopted our then quality standards in relation to gadopentetate dimeglumine injection when it formulated the national quality standards that apply to all gadopentetate dimeglumine injections manufactured by pharmaceutical manufacturers in the PRC. Furthermore, to ensure continuous improvement in the quality of our pharmaceutical products, our quality management team reviews the implementation of the quality control system on a regular basis and submits a monthly product quality inspection report to the management that sets out unusual matters discovered during the production process, product quality control conditions and product acceptance rate.

As of 30 June 2013, our quality management team comprised 45 members, which was divided into quality control division and quality assurance division. A majority of them have pharmaceutical or medical related educational background and more than 10 members have over seven years of experience in quality control in the PRC pharmaceutical industry. Our quality management team is led by personnel with pharmacist or senior engineer qualification. Our quality management team is responsible for formulating our quality control system in accordance with the GMP standards and the relevant PRC laws and regulations, as well as monitoring our raw material procurement process and production process.

We have internal policy and guidelines on quality control of production of our pharmaceutical products to comply with the GMP standards and requirements. Such internal policy and guidelines cover all aspects of the production of our pharmaceutical products including the design and construction of production plants and facilities, the installation and maintenance of production equipment, procurement of raw materials and packaging materials, quality checks of raw materials, production process and finished products, monitoring adverse medicine reactions and verification of documentations.

As of the Latest Practicable Date, we held in total 12 GMP certificates, which will expire between 2013 and 2017. We have never failed to renew the GMP certificates since we first obtained the GMP certificates. The following table sets out the key requirements under the GMP standards in the PRC and how our operations comply with such standards:

Requirements under GMP standards	Measures taken by our Group
Quality management:	
An enterprise should establish quality objectives to meet quality management requirements. All medicine registration requirements concerning safety, effectiveness and quality control shall be implemented systematically into the entire process of production, quality control, release, storage and shipping of the pharmaceutical products to ensure that such products are qualify to be used for its intended purposes and meets the registration requirements.	To ensure our products meet their intended use and the registration requirements, we have established relevant quality principles and objectives, based on which we have set up and implemented relevant quality control management systems, such as the quality control management systems in relation to the safety operation of laboratory, the production process and the delivery of finished products. Also, we have provided our employees with necessary trainings and resources in respect of the quality objectives, and monitored the implementation of the quality control management systems.
Quality control includes aspects such as responsible organisations, documentation systems, as well as sampling and inspection procedures to ensure the quality of raw materials and the pharmaceutical products.	We have established a quality management team which is independent from our production team and is able to independently perform its duties. Key positions are staffed with professional technical management personnel. A majority of our quality management team members have pharmaceutical or medical related educational background and more than 10 members have over seven years of experience in quality control in the PRC pharmaceutical industry. Each position established in such team has clear delineation of responsibilities. In addition, we have established comprehensive management systems and customised procedures for testing, sampling, monitoring, and releasing raw materials and products. We have established specific quality control standards for each type of raw materials, packaging materials, semi-finished products and finished products. Raw materials or semi-finished products cannot proceed to the next stage of production unless they have passed the quality testing process. Finished products cannot be released for sale unless they have met our quality standards.

Requirements under GMP standards	Measures taken by our Group
Organisation and personnel:	
An enterprise shall establish independent quality management departments to perform the duties of quality assurance and quality control. The quality management department can be set up separately as quality assurance department and quality control department.	We have established an independent quality management team, which consists of a quality assurance division and a quality control division, both of which are completely independent from the production team. The quality management team is responsible for the quality control matters as required by GMP standards, including formulating and approving our GMP documents, selecting our suppliers, and monitoring the production process.
Production plants and facilities:	
The location, design, layout, construction, renovation and maintenance of the production plants must comply with the requirements of pharmaceutical production. Measures shall be taken to avoid, to the best extent, contamination, cross-contamination, mix-ups and errors, and the environment needs to be convenient to clean, operate and maintain.	We have implemented internal guidelines and procedures to ensure all production plants meet the GMP standards in terms of location, design, layout, construction, renovation and maintenance of the production plants, and the relevant legal requirements for safety production and environmental protection. Under our guidelines, we will consider pollution factors when we locate our production facilities, therefore, we only locate our production facilities in industrial development zones with suitable environmental conditions. In addition, under our guidelines, we only engage designing institutions with pharmaceutical expertise to help design our production facilities. We have adopted customised procedures for the production area, warehouses, quality control area and the production supporting area to avoid contamination, cross-contamination, mix-ups and errors, including separation of areas with different functions. For example, staff and production materials have separate access to the production area, and the quality control area and production area are separated from each other.
Equipments:	
Documents and records regarding equipment procurement, installation and confirmation shall be created and kept.	We have set up a filing system to record all production phases, including the procurement, installation, installation confirmation, operation confirmation, performance confirmation and daily usage of each equipment. The activities of each phase are documented, recorded and archived.

Requirements under GMP standards	Measures taken by our Group
Materials and products:	
Handling procedures of materials and products shall be established to ensure that the materials and products are property received, stored, distributed and delivered in order to prevent contamination, cross-contamination, mix-ups and errors.	To prevent materials and products from contamination, cross-contamination, mix-ups and errors, we establish management systems and operation procedures which meet the GMP standards to ensure that the materials and products and property received, inspected, stored, used, distributed and delivered. For example, the production waste is delivered out of the production area through a specific channel which is separated from that for the production materials. In addition, our warehouses have in place separated areas for the storage of production materials and finished products.
Procurement:	
Quality assessment should be performed for the determination and change of material suppliers, and procurement can only be carried out after the suppliers have been approved by quality management department.	Our quality management team is responsible to examine and evaluate the qualifications of suppliers of raw materials in accordance with the relevant procurement procedures, which require onsite visit and inspection, sample testing and trial production. We only procure raw materials from suppliers approved by the quality management team.
Confirmation and verification:	
Before any new production formula or technique is adopted, an enterprise shall verify their applicability in regular production. the production technique adopted should be able to consistently manufacture products that meet the intended use and the registration requirements if the required raw materials and equipment are used.	To ensure that new production techniques or production formulas will meet their intended use and will be applicable to normal production, we establish a verification management system, which requires that any new production technique and production formula must be strictly verified before applying to formal production process. For example, specific technical trainings on such new production techniques or production formulas are provided to employees and each production technique or production formula has to pass at least three rounds of trial production to ensure the consistency and stability of the product quality and the production process.

Requirements under GMP standards	Measures taken by our Group
Documents management:	
Each batch of pharmaceutical products shall have a corresponding batch production record that allows one to trace the product batch's production history and quality-related information.	Each batch of product has a corresponding batch production record, which contains details of the key information of each stage of production to ensure the traceability of its production process, such as date, product name, batch number, the operating staff, the verifying staff, production procedures, key technical indicators, the quality indicators of the intermediate products in various phases and quality indicators of the finished products.
Production management:	
An enterprise shall establish operation procedures to differentiate different batches of pharmaceutical products to make sure pharmaceutical products of the same batch have consistent quality and features.	We have established cleanup management systems and product cleaning operation procedures to require clearing up and cleaning of the production workshops after completion of each stage of production of each batch of products, and the clearing and cleaning records are filed with the production records after the cleaning works are completed. Personnel from quality management team would inspect the production workshops to check the results of cleaning, and the production workshops can only be put back to operation after the personnel believe the cleaning fulfils the relevant requirements.

Raw materials quality control

We have stringent procedures in place for the selection of suppliers, which are in compliance with the GMP standards and the requirements of CFDA. Raw materials are subject to sample testing during the supplier selection process and the raw material delivery process. Only raw materials that satisfy our specification and standards are accepted.

Production process quality control

We adopt strict hygiene standards at our production lines. All production employees are required to wear production uniform, working caps and shoes. Access to our production line is controlled and each production staff is assigned to designated post(s) of a production line. Each stage of our production process is closely monitored by our quality control team. Semi-finished products are sample tested after each stage of the production process to ensure their compliance with GMP requirements and our quality standards. Only those products which pass the quality testing processes can proceed to the next stage of production.

For the production of our uremic clearance granule, our quality management team (i) closely monitors the temperature and concentration of raw materials, steam pressure and processing time during the boiling and condensation processes; (ii) examines the density of the ointment during the ointment collection process; (iii) examines if the temperature, moisture content and shape of

granule produced after the heating, granulating, dehydration and mixing processes meet our quality standards; and (iv) inspects the weight and sealing of each package of uremic clearance granule after the packaging process.

For the production of our gadopentetate dimeglumine injection, our quality management team (i) closely monitors the temperature of the chemical reaction and the processing time during the complexation, condensation and decarbonisation processes; (ii) examines the ingredient composition and conduct sample testing of the semi-finished products after the formulating and filtration processes; (iii) examines if the bottling method, the temperature and sterilisation time, and the clarity of the injection produced in the bottling and sterilisation processes meet our quality standards; and (iv) inspects the weight and sealing of each bottle of gadopentetate dimeglumine injection after the packaging process.

Finished products quality control

Each batch of completed products is subject to quality checks on a sample basis to ensure the fulfilment of the required standards. Product approval certificate and quality assurance report are issued with each batch of completed products which pass the inspection and obtain approval from our quality management team. Our warehouses only release products that obtain both the product approval certificate and the quality assurance report. Finished products that fail to meet our quality standards are destroyed.

Quality control during transportation

Before we deliver our pharmaceutical products to our third party distributors, our quality management team will inspect all material supply, production and quality assessment records to ensure such pharmaceutical products are in line with our internal as well as national standards. Each batch of our pharmaceutical products has a distribution record and is labeled by a serial number to ensure accurate tracking of products sold. In addition, we assess the qualifications of our logistics providers to ensure that only qualified logistics companies are engaged to deliver our pharmaceutical products to our customers.

We also have in place various measures to monitor the distribution of our pharmaceutical products in accordance with the GSP standards and requirements. As of the Latest Practicable Date, we held one GSP certificate which will expire in 2014. We have never failed to renew the GSP certificate since we first obtained such certificate. The following table sets out key requirements under GSP standards in the PRC and how our operation comply with such standards:

Requirements under GSP standards	Measures taken by our Group
Quality management:	
The quality management system of an enterprise, including its organisation structure, personnel, facility and equipment, quality management system documentation and computer system, shall be applicable to the business activities within its business scope and its scale of business.	We have established quality management systems and procedures in compliance with the GSP standards. We have set up the organisation structure, personnel, facility and equipment, quality management documentation and computer system which are suitable for our business. For example, we have established a quality management team and a material supply and storage team which are independent from each other.

Requirements under GSP standards	Measures taken by our Group
Facilities and equipment:	
The location, design, layout, construction, reconstruction and maintenance of warehouses must comply with the requirements for the storage of pharmaceutical products. Measures shall be taken to be able to avoid contamination, cross-contamination, mix-ups and errors.	Our warehouses have been equipped with the appropriate facilities and equipment suitable for the storage of our products, such as the humid and temperature control equipment and lighting equipment. To avoid contamination, cross-contamination, mix-ups and errors, different inventories including Chinese herbs, packaging materials, finished products and defective products have separated storage areas.
Sales management:	
An enterprise shall sell the pharmaceutical products to legitimate purchasers. Measures shall be taken to verify the relevant certificates of the purchasers and the identities of their employees conducting the procurement and taking delivery of the pharmaceutical products to ensure accuracy and legality of the flow of the pharmaceutical products.	We have established a verification management system and the relevant procedures to ensure our products are sold to legitimate purchasers. Our quality management team is responsible for examining and verifying the qualifications and identifications of each of our customers and their sales staffs. Informations of qualified customers and their sales staffs is recorded in our database and the computer system will only authorise the issue of invoices to our qualified customers.

We had not encountered any material complaints on product quality or any material product returns during the Track Record Period and up to the Latest Practicable Date.

INVENTORY AND LOGISTICS

Inventory management

The inventories of our operations primarily consist of raw materials, work in progress and finished goods.

We have warehouses in each of our production plants located in Guangzhou, Guangdong province, and Tongliao, Inner Mongolia autonomous region, with a gross floor area of approximately 2,646 sq.m. Our inventories are stored in accordance with GMP requirements. As some of our raw materials and finished products are temperature and humidity sensitive, our warehouses are equipped with temperature and humidity control systems to maintain the quality and stability of our raw materials and finished products. Furthermore, to provide sufficient space for the storage of inventories to meet our expansion plan, three warehouses with a gross floor area of approximately 5,940 sq.m. are under construction in accordance with GMP requirements in our Guangzhou and Tongliao production plants. The warehouses that are under construction in our Tongliao production plant is expected to be in operation in second half of 2014, while the warehouse under construction in our Guangzhou production plant is expected to be in operation in the first quarter of 2014.

We employ an enterprise resource planning system to track the in-coming and out-going inventories. This system enables us to monitor levels of inventories on a timely basis so as to maintain an optimum level of raw materials and finished products. We also conduct stock take of our inventories on a weekly basis. With our continuing efforts in managing inventory levels, our average inventory turnover days improved significantly during the Track Record Period. Please also refer to the section headed "FINANCIAL INFORMATION – CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION – Inventories" in this prospectus for further details. Raw materials and finished products that are obsolete, damaged or expired are generally written off and disposed of in accordance with the relevant laws and regulations of the PRC. During the Track Record Period and up to the Latest Practicable Date, we had not experienced significant write offs for obsolete, damaged or expired inventories.

In addition, each of our pharmaceutical products which is an OTC medicine or included in the National List of Essential Medicines is assigned with a unique electronic code which is printed on its package and is reported to the CFDA for tracking. Further, to obtain up-to-date information as to the inventory levels and sales status of our third party distributors, we have access to the electronic system of our third party distributors to monitor the inventory and sales level of our pharmaceutical products. We require certain key third party distributors to maintain at least 1.5-month inventory of our products. For other third party distributors, we ensure the supply of our products on the basis of their actual inventory level.

Logistics

We outsource the transportation of most of our pharmaceutical products to qualified logistics companies. We generally assess our logistics providers based on price, reputation, transportation efficiency, transportation capability and their track records. We also require our logistics providers to possess transportation permits and other relevant qualifications to conduct their business. We normally enter into one-year agreements with our logistics companies and evaluate their performance on an annual basis. These outsourcing arrangements allow us to reduce our capital investment and the logistics companies bear the risks associated with delivery of our pharmaceutical products, including those arising from traffic accidents or delivery delays.

We have our own vehicle supports and are responsible for the delivery of products to customers located near our production plants.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any significant delay in delivery that materially affected our business operations.

INTELLECTUAL PROPERTIES

Details of formulae of our pharmaceutical products and the production technologies and conditions that we use in the production process constitute part of the technical know-how which is vital to our business. We rely on a combination of patents, trademarks and trade secrets, as well as employee and third party confidentiality agreements, to protect our intellectual properties.

We also own and have applied for patents to protect the technologies, inventions and improvement that we believe are significant to our business. As of the Latest Practicable Date, we had nine patents granted and one patent application pending registration by the SIPO. In addition, we had three patent applications pending approval in each of the United States, Europe and India. We had three patents granted in Hong Kong, one patent granted and two patent applications pending approval in Japan, and two patents granted and one patent application pending approval in Korea. The subject matters of all of our overseas patent applications are related to compounds discovered during the refinement and re-development of our uremic clearance granule, which may be further developed to form the basis of new medicines in the future. We also rely on trademark

registration to protect our non-patented products. As of the Latest Practicable Date, we had registered 68 trademarks in the PRC, five trademarks in Hong Kong and one trademark in each of the Philippines, Thailand, Vietnam, Indonesia, Singapore and Korea, including "  ", which was recognised as "Guangzhou Well-Known Brand" by the Guangzhou branch of SAIC in 2011, and  , which was recognised as and "Guangdong Well-Known Brand" by the Guangdong branch of SAIC in 2012.

In respect of the proprietary know-how or data that is not patentable and production processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality agreements in order to safeguard our interests. We adopt a secret protection policy under which personnel and department responsible for secret protection are identified. All of our employees and our external research partners who are involved in our research and development projects are required to enter into confidentiality agreements with us. These agreements require such personnel to keep the relevant confidential information confidential and be responsible for preventing leakage of confidential information. Moreover, the strict segregation of duties among members involved in different stages of research and development process ensures that each member only obtains know-how in relation to a specific stage instead of the entire process of our research and development projects.

If our patents or trademark are challenged, our brand name is damaged or our trade secrets become known by our competitors, there could be a material adverse effect on our business. Please refer to the section headed "RISK FACTORS – RISKS RELATING TO OUR BUSINESS – We may be unable to adequately protect our intellectual property rights" in this prospectus for more details.

In addition to protecting our own intellectual property rights, it is also essential to minimise the risk that any of our pharmaceutical products or production technologies may infringe the intellectual property rights of others. For each research and development projects, our research and development team members conduct patent searches to ensure that the subject matter of the project does not infringe others' intellectual property rights prior to the commencement of such project. However, despite such internal control procedures, the risk of infringing third party intellectual properties cannot be eliminated entirely. Please refer to the section headed "RISK FACTORS – RISKS RELATING TO OUR BUSINESS – We may be exposed to infringement claims if we infringe third party proprietary or intellectual property rights" in this prospectus for more details.

As of the Latest Practicable Date, we had not been sued on the ground of, and had not undergone arbitration in respect of, nor had we received any notification from third parties that claim any infringement of intellectual properties of third parties. Furthermore, as of the Latest Practicable Date, we had not been the subject of any adverse finding in an investigation or audit by any governmental authorities in respect of any infringement of intellectual property rights of third parties.

COUNTERFEIT PRODUCTS

We are aware that certain counterfeits of our pharmaceutical products exist in the PRC market. In order to proactively prevent counterfeiting, we add counterfeit-prevention laser labels and unique barcodes on the packaging of our pharmaceutical products. In addition, we investigate counterfeit products in the market through our customer service department and marketing team to monitor any counterfeit products and infringement of our intellectual property and information provided by our third party distributors, other end-users. In the past, we have also informed the relevant PRC government authorities, such as the local branches of SAIC and public security bureaus, of existence of counterfeit of our pharmaceutical products. For instance, in January 2013,

we discovered that a factory located in Zhejiang province had illegally produced 1,000 counterfeit packages of uremic clearance granule without our consent or authorisation. Appropriate actions were taken by the relevant government authorities, including confiscation of counterfeit products. We also took further actions to avoid reoccurrence of such incident, including requesting further assistance from the relevant government authorities in tracing the source of any possible infringement incidents, informing our third party distributors and sub-distributors of such incident and requiring them to purchase our pharmaceutical products through the approved sales channels, and organising on-site visits by our marketing representatives to ensure possible infringements are promptly discovered and reported to the management and the relevant government authorities. We will continue to take proper actions to defend our intellectual property rights and our products against infringements. During the Track Record Period, counterfeit products had not had a material adverse effect our turnover.

EMPLOYEES

As of 30 June 2013, we had 1,078 employees. The table below sets out a breakdown of our employees by function as of 30 June 2013:

	Number of employees
Production	268
Marketing	561
Research and development	60
Procurement	2
Quality management	45
Inventory management and logistics	19
General Administration	91
Management	32
Total:	1,078

We utilise a periodic employee evaluation program whereby each of our employees receives feedback on their performance. The bonuses of most of our employees are performance based. We require our new employees to attend an orientation training programme. From time to time we provide continuous training to our employees in order to improve their customer service skills, marketing skills, technical skills and product knowledge. Such training is delivered by our employees and also by external trainers.

We contribute to a social insurance scheme in accordance with PRC laws and regulations. Based on the confirmation letters issued by the Human Resources and Social Security Bureau of Luogang district on 18 April 2013 and the Human Resources and Social Security Bureau of Kezuohouqi on 27 July 2012 and 3 April 2013, both of which are competent authorities in charge of social insurance matters. As confirmed by our PRC Legal Advisers, we have complied with the labour law and regulations in the PRC.

We maintain good working relationships with our employees. Our Directors believe that our working environment and benefits offered to our employees have contributed to building good employee relations and retention. As of the Latest Practicable Date, we had not experienced any strikes or any labour disputes with our employees which have had a material effect on our business.

As required by applicable PRC laws and regulations, we participate in the housing provident funds for our employees. Based on the confirmation letters issued by the Housing Provident Fund Administration Bureau of Guangzhou on 15 April 2013 and the Housing Provident Fund Administration Bureau of Tongliao, Kezuohouqi branch on 6 May 2013, both of which are competent authorities in charge of housing provident funds matters. As confirmed by our PRC Legal Advisers, (i) GZ Consun, Consun Medicine and Consun Research had not been subject to any penalty imposed by the Housing Provident Fund Administration Bureau of Guangzhou since they commenced to pay the housing provident funds for their employees; and (ii) Consun (Inner Mongolia) and Kangyuan had made full payment of the housing provident funds for their employees for the period from they opened the accounts for the payment of housing provident funds up to the date of the confirmation letters.

PROPERTIES

As of the Latest Practicable Date, we held the land use rights to eight parcels of land housing our production plants located in Guangzhou, Guangdong province and Tongliao, Inner Mongolia autonomous region, with an aggregate site area of approximately 227,170.5 sq.m. and building ownership certificates to various buildings and units in the PRC with a gross floor area of approximately 49,338.8 sq.m. These are used as production plants, ancillary facilities, offices and employee quarters. As confirmed by our PRC Legal Advisers, as of the Latest Practicable Date, other than the properties stated below, we had obtained all necessary land use right certificates and building ownership certificates for our properties.

We have not obtained the relevant ownership certificates for eight of our properties, with an aggregate gross floor area of 712.0 sq.m., representing 1.4% of the gross floor area of the properties occupied and used by us as of the Latest Practicable Date. All of these properties are used as employee quarters. Among these properties:

- five of these properties with a total gross floor area of approximately 519.9 sq.m. are located on five parcels of land located in Tongliao, Inner Mongolia autonomous region which we leased from the State. According to the confirmation letter issued by the Land Resources Bureau of Kezuohoqi on 27 June 2013, which is a competent authority in charge of land use right administrative matters, the land use right of the said parcels of land, with a total site area of approximately 357.2 sq.m. was leased to us for residential use for a term of 18 years. The lease will expire on 26 June 2022. As confirmed by our PRC Legal Advisers, the lessor of such land is legally in possession of the land use right of the said parcels of land. However, we have not obtained the building ownership certificates of such properties due to the lack of the relevant construction planning permits and as advised by our PRC Legal Advisers, we are unable to transfer, mortgage or otherwise dispose such properties without the building ownership certificates. Further, as advised by our PRC Legal Advisers, if the relevant government authorities determine that the construction of these properties are not in compliance with the local planning, (i) we may be required to rectify such non-compliance; (ii) we may be ordered to dismantle such properties or such properties may be confiscated by the government authorities if we fail to rectify such non-compliance as required; and (iii) we will be subject to fines which equal to up to 10% of the construction cost. However, our Directors do not expect the amount of such potential fines to be material to us.

- we have not obtained the land use right certificates for the remaining three of these properties located in Tongliao, Inner Mongolia autonomous region with a total gross floor area of 192.1 sq.m. due to the failure of the property developer to obtain the initial land use right of the land parcel where our properties are located. As advised by our PRC

Legal Advisers, we will not be subject to any penalty imposed by the relevant government authorities for occupying such properties without obtaining the relevant land use right certificates. However, as advised by our PRC Legal Advisers, (i) although we are the sole legal owner of the said properties, we are unable to transfer, mortgage or otherwise dispose such properties without the relevant land use right certificates; and (ii) the relevant government authorities may confiscate such properties, but we may require the relevant property developer to take remedial actions or indemnify us for our loss caused by such confiscation.

Our Directors believe that (i) such properties are not crucial to our operations and the lack of the relevant building ownership certificates or land use right certificates does not and will not have a material adverse effect on our business, result of operations and financial condition because the defective properties are merely used as quarters of our employees and they represent a small portion of the total value of our properties; (ii) there would not be any difference in our cost to acquire or lease the relevant parcel of land if such properties did not have the aforesaid defective titles; and (iii) the properties are safe to be used for residential purpose. We are seeking alternative quarters for the relevant employees. In case we are required to relocate, we have alternative quarters available for the said employees who will be responsible for their own relocation expenses. Our Directors expect that the relocation can be completed within a month and will not have a material adverse effect on our business, results of operation and financial position.

As of the Latest Practicable Date, we had also completed construction of our production workshop, offices and ancillary facilities of gross floor area of approximately 12,533.7 sq.m., which we are in the course of applying for the relevant building ownership certificates.

We continue to expand our production plants to enhance our production capacities. As of the Latest Practicable Date, we had various buildings and units that were under construction, with an aggregate planned gross floor area of 6,180 sq.m. We intend to use these buildings mainly for production, storage, quality control and other logistic purposes. As confirmed by our PRC Legal Advisers, we have obtained the land use right certificates and other relevant planning and construction certificates for such properties under construction. For further details of the property interests owned or leased by us, please refer to "APPENDIX III – PROPERTY VALUATION" to this prospectus.

ENVIRONMENTAL AND OCCUPATIONAL SAFETY MATTERS

We recognise the importance of environmental protection and therefore have controlled our pollutant emissions and ensured compliance with the PRC environmental laws and regulations during the course of production. Our operations are subject to national, provincial and local environmental laws, rules and regulations which, among other things, require manufacturers to conduct an environmental impact assessment before engaging in new construction projects, pay fees in connection with activities that discharge waste materials, properly manage and dispose of hazardous substances, and impose fines and other penalties on activities that threaten the environment. For further information on the environmental laws, rules and regulations governing our operations, please refer to the section headed "REGULATIONS – ENVIRONMENTAL PROTECTION" in this prospectus.

The primary waste generated from our production process are air emissions, liquid waste and solid waste, which are treated in compliance with all applicable environmental laws, regulations and rules. For instance, we have a sewage system with waste water processing equipment in each of our production plants. We have also installed dust removers in our production plants to purify the waste gas before emission, and have engaged qualified contractors to remove the solid waste generated during

the production process. Moreover, we conduct annual inspections of our production facilities to ensure the compliance of relevant laws and regulations on environmental protection. The annual cost for compliance with the relevant environmental laws, rules and regulations, which comprised sewage treatment fee, for the three years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 were approximately RMB0.1 million, RMB0.1 million, RMB0.1 million and RMB0.1 million, respectively. Our Directors expect that we will continue to incur costs of similar amounts for compliance with such laws, rules and regulations in the future.

Based on the confirmation letters issued by the Bureau of Environmental Protection and Urban Administration of Guangzhou Economic Development Zone on 16 April 2013 and by the Bureau of Environmental Protection of Tongliao on 27 May 2013, both of which are competent authorities in charge of environmental protection matters. As confirmed by our PRC Legal Advisers, we are in compliance with all relevant national or local environmental laws and regulations in the PRC in all aspects and have obtained all permits, approvals and certificates required under PRC law in relation to environmental protection. In addition, according to these confirmation letters, these authorities are not aware of any non-compliance on our part with applicable PRC environmental laws and regulations as of the date of the confirmation letters. Our Directors are of the view that the annual cost of compliance with applicable PRC environmental laws, regulations and policies was not material during the Track Record Period. We believe that the expected cost of compliance will not be material going forward.

Our operations are subject to a number of regulatory requirements with respect to employee health and safety. Please see the section headed "REGULATIONS – OCCUPATIONAL HEALTH AND SAFETY" in this prospectus for more details. We regard occupational health and safety as one of our important social responsibilities. We have implemented safety guidelines at our production facilities and require all employees to strictly comply with such requirements. In particular, we have established a designated safety supervision team to formulate the safe production development and accident prevention implementation policy for all of our production plants. We also have a safety inspection team at each production plant to implement such safety measures. We carry out regular and random safety checks on our production facilities to ensure that such facilities are thoroughly tested and are safe for use. We provide new employee orientation training and regular training sessions which include accident prevention and management. We provide medical checks to our employees on a regular basis and employees with contagious diseases are not allowed to involve in our production. In addition, we require operators of our production facilities to attend training sessions on the required safety standards. Our Directors have confirmed that during the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable PRC laws and regulations in relation to employee health and safety, including GMP certification requirements. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any major accidents that resulted in the death or serious injury of our employees.

INSURANCE

Our insurance coverage includes social security insurance for all of our employees, product delivery insurance, vehicle insurance and personal accident insurance for some of our employees. We do not maintain product liability insurance nor business interruption insurance, nor insurance for key-employees, as this is not a common industry practice in the PRC. Furthermore, we do not maintain insurance relating to the transportation of products during distribution as this cost is borne by our third party distributors. We consider our current insurance coverage to be adequate, as it complies with PRC laws and regulations and is in accordance with the industry practice.

COMPLIANCE

Permits, licences and approvals

As a manufacturer of pharmaceutical products, we are subject to laws, regulations and supervision by different levels of regulatory authorities and are required to maintain various licences, permits and approvals in order to operate our facilities and conduct our business. A summary of such relevant PRC laws and regulations which our business operations are subject to is set out in the section headed "REGULATIONS" in this prospectus. As confirmed by our PRC Legal Advisers, we have obtained all relevant licences, permits and approvals for our business operations in the PRC and such licences, permits and approvals were valid and remain in effect as of the Latest Practicable Date and we have complied with all material rules and regulations applicable to our business during the Track Record Period and up to the Latest Practicable Date.

Anti-corruption compliance

Since the early 1990s, the PRC government has issued various laws and regulations with respect to commercial bribery. In 1993, the NPC adopted the PRC Anti-Unfair Competition Law, which became effective on 1 December 1993 and provided that a business operator would commit a crime if it offered money or any other bribes in the course of selling or purchasing products. On 15 November 1996, the SAIC issued the Interim Provisional Regulations on the Prohibition of Commercial Bribery, which provided that the act of commercial bribery included offering money, goods, all kinds of free tours, and unrecorded rebate and sales commission in secret to any person when selling or buying products. Violations to such regulations by a business operator are subject to fines in an amount ranging from RMB10,000 to RMB200,000 and confiscation of illegal gains. In addition, any offer of property to any government officials for the purpose of seeking illegitimate gain or interest is considered a crime under the PRC Criminal Law and becomes punishable by the relevant PRC governmental authorities.

For the avoidance of any violation to the aforesaid anti-corruption requirements by our employees, we have taken measures to regulate the conduct of our marketing representatives and tighten our sales and finance management system. These measures include undertaking regular inspection on sales and finance matters, closely monitoring the marketing activities of our marketing representatives, establishing internal policies for approving reimbursement of marketing, entertainment, travelling and accommodation expenses incurred by our marketing representatives, and providing training to our marketing representatives on our internal guidelines on expenditures and reimbursement and to increase their awareness of relevant anti-corruption laws and regulations, as well as bribery-related acts. To prevent our third party distributors and sub-distributors from engaging in corruption, bribery, or other improper conduct, we take into account the compliance history of the third party distributors and sub-distributors during our distributors selection process. In addition, our third party distributors and sub-distributors are required under their agreements with us to comply with all applicable laws and regulations and restrain from inappropriate conduct and shall compensate us for any damages to our image or reputation as a result of their illegal or inappropriate conducts, while our marketing representatives are also responsible for emphasizing to our third party distributors and sub-distributors our anti-corruption policy and overseeing their activities through routine follow-ups. We also set up a compliant hotline for the public to collect information in relation to any corruption, bribery, or other improper conduct of our employees, third party distributors, or sub-distributors. Internally, our legal department is responsible for the enforcement of the anti-corruption rules of our Group by conducting random inspections on our liaison points, and interviews with our marketing representatives, third party distributors and sub-distributors. Our legal department shall report to our senior management upon discovery of any corruption case or misconduct and report to the

regulatory authority where appropriate. Our Directors are of the view that such controls and measures are adequate to avoid the occurrence of corruption, bribery, or other improper conducts of our employees, third party distributors and sub-distributors.

During the Track Record Period and up to the Latest Practicable Date, we had been in compliance with the aforesaid anti-corruption requirements, and we were not aware of any non-compliance with such requirements by our Directors or employees. Further, to the best knowledge of our Directors, none of our third party distributors or sub-distributors was involved in any investigation or litigation in respect of non-compliance with such requirements during the Track Record Period and up to the Latest Practicable Date.

Legal proceedings

From time to time, we have been, and may in the future be, involved in arbitration, litigation or regulatory proceedings relating to contract disputes, labour disputes and other matters in the ordinary course of our business. However, as of the Latest Practicable Date, we were not a party to any legal, administrative or arbitration proceedings, and we were not aware of any such proceedings threatened against us that could have a material adverse impact upon our business, financial condition or results of operation.

COMPETITION

The pharmaceutical market in the PRC has grown rapidly in recent years. According to SMERI Report, the overall market size of the PRC pharmaceutical market grew from RMB786.3 billion in 2008 to RMB1,784.5 billion in 2012. The pharmaceutical manufacturing industry is highly competitive. According to SMERI Report, there were over 4,600 pharmaceutical manufacturers in the PRC as of 31 December 2011. We compete directly with pharmaceutical manufacturers producing the same type of products as ours and indirectly with those producing products with similar curative effects which can be used as substitutes to our pharmaceutical products. We also face competition when we expand into other markets, and when new competitors enter into our existing markets. Our competitors vary by product and, in certain cases, different competitors may have greater or lesser financial resources, marketing capabilities and/or market share by region in the PRC than us.

According to SMERI Report, we are the leading manufacturer of oral modern Chinese medicines for kidney disease in the PRC. Our uremic clearance granule consistently ranked first in the market of oral modern Chinese medicines for kidney disease in the PRC from 2008 to 2012 in terms of retail sales, commanding a market share of 24.1% in 2012. It has also consistently ranked among the top three in the market of kidney medicines in the PRC from 2008 to 2012 in terms of retail sales. Our competing products, haikunshenxi capsule (海昆腎喜膠囊) and ambrette capsule (黃葵膠囊), which ranked second and third in the market of oral modern Chinese medicines for kidney disease in the PRC in 2012, had market share of 21.3% and 15.5%, respectively, and the five products which commanded the largest market share in the same market had, in aggregate, a market share of 74.4% in 2012. It is unlikely that new products will be introduced to and materially change the current market of oral modern Chinese medicines for kidney disease in the PRC in the near future as it normally takes about three to five years for a pharmaceutical manufacturer to obtain the required approval for the production and sale of a pharmaceutical product. Please also refer to the section headed "INDUSTRY OVERVIEW – KIDNEY MEDICINES MARKET IN THE PRC – Oral modern Chinese medicines for kidney disease in the PRC" in this prospectus for further details. We believe that we have competitive advantages over our major competitors in the market of oral modern Chinese medicines for kidney disease in the PRC as our uremic clearance granule is the only product which has been recognised as a class two national Chinese medicine protection

type by the CFDA in accordance with the Chinese Medicine Type Protection Law (中藥品種保護條例) promulgated by the State Council of the PRC and listed in the National List of Essential Medicines, among the five products which commanded the largest market share in the market of oral modern Chinese medicines for kidney disease in the PRC in 2012.

According to SMERI Report, our gadopentetate dimeglumine injection had a market share of 17.1% and ranked third in the market of MRI medical contrast medium in the PRC in 2012 in terms of retail sales. The other gadopentetate dimeglumine injection manufacturers which ranked first and second in the same market had respective market share of 30.5% and 25.9% in 2012. The MRI medical contrast medium market in the PRC is centralised and the five products which commanded the largest market share in the same market had, in aggregate, a market share of 92.3% in 2012. Please also refer to the section headed "INDUSTRY OVERVIEW – MEDICAL CONTRAST MEDIUM MARKET IN THE PRC – MRI medical contrast medium" in this prospectus for further details. According to SMERI Report, gadopentetate dimeglumine injection, including those manufactured and sold by us, had a total market share of 78.4% in the MRI medical contrast medium market in the PRC in 2012. There are only five manufacturers which have obtained the production approval from CFDA for the manufacture and sale of gadopentetate dimeglumine injection in the PRC and only four of them, including us, are still manufacturing and selling such pharmaceutical product. Given the limited number of approved manufacturers in a high growing market and the competitive retail price of our gadopentetate dimeglumine injection, we believe that we will be able to compete with our competitors and maintain our market share in the future.

The pharmaceutical industry is characterised by strong product differentiation, inelastic demand and elastic supply. The entry barrier to set up and operate a pharmaceutical manufacturing business in the PRC is considered by our Directors to be high as substantial capital investment, strong research and development capability and extensive marketing network are required.

We believe that market participants in the PRC's pharmaceutical market generally compete in, among other things, product portfolio, curative effects of products, product quality, research and development capability, market positioning, and marketing and promotion.

We have been manufacturing our pharmaceutical products in accordance with GMP standards and our quality control procedures and standards. We conduct advanced pharmaceutical research and development to improve both the curative effects and production technologies of our existing products and introduce new products in therapeutic areas of significant potential market demand.

Most of the pharmaceutical products are purchased by medical institutions instead of the end users, and therefore, the sales channels of pharmaceutical products are different from other commodities. We have a strong marketing team and an extensive sales network built up by our third party distributors, both of which have established direct and close relationship with the hospitals, medical institutions and pharmacies.

We believe that our plans to enrich our product offering, extend our sales and distribution network and strengthen our marketing efforts, increase our brand recognition, further strengthen our research and development capabilities, expand our business through selective strategic acquisitions, investments or partnerships and expand our production capacity and enhance our production capability and supplemental ancillary facilities are crucial to maintaining our competitive advantages over our domestic and overseas competitors.