You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could decline owing to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC and most of our operations are conducted in the PRC and governed by a legal and regulatory environment that may differ significantly from that of other jurisdictions. For more information concerning the PRC and certain related material matters discussed below, see "Regulatory Overview" and "Appendix V – Summary of Principal Laws and Regulations" in this prospectus.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We may be unable to effectively manage our rapid growth, which could materially and adversely affect our business prospects and results of operations.

We have experienced rapid growth and significantly expanded our business in recent years. Our total turnover grew from RMB66.9 million in 2010 to RMB103.2 million in 2011 and further to RMB150.4 million in 2012, representing a CAGR of 49.9% from 2010 to 2012. Our retail network has also grown rapidly in recent years and one of our strategies is to further expand our retail network. Since the beginning of 2010, when we had 13 Zhongsheng retail stores that were mostly located in Jiangsu province and the surrounding area and no Cobayer retail stores, we have expanded to a network of 35 Zhongsheng retail stores and 14 Cobayer retail stores in 25 cities of eight provinces and centrally administered municipalities in China as of June 30, 2013. We intend to continue our expansion in the foreseeable future to pursue existing and potential market opportunities, and plan to increase our total number of Zhongsheng retail stores and Cobayer retail stores to 45 and 72, by the end of 2014, respectively.

Our rapid growth has placed and will continue to place significant demands on our management and our administrative, operational and financial resources. To manage the future growth of our operations, we will be required to improve our operational and financial systems, including our centralized customer service system, procedures and controls, increase effective annual production capacity, and expand, train and manage our growing employee base. Furthermore, we need to maintain and expand our relationships with our customers, suppliers, research institutions, third-party manufacturers and other third parties. In particular, we need to hire and train our sales personnel to manage our growing sales network. Moreover, as we introduce new products or enter new markets, we may face new market, technological and operational risks and challenges with which we are unfamiliar. Our current and planned operations, personnel, systems, internal procedures and controls may not be adequate to support our future growth and expansion. In addition, the success of our growth strategy depends on a number of external factors, such as the growth of the nutritional supplements markets and the demand for imported nutritional supplements in China, the level of competition we face and the evolving consumer behavior and preference. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures. Failure to manage our expansion effectively may materially and adversely affect our business prospects and results of operations.

There can be no assurance that we will be able to maintain or increase our historical levels of profitability.

We experienced high levels of profitability historically. Our gross profit margin, representing our gross profit divided by turnover, was 79.7%, 80.6%, 86.5% and 86.9% for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Our net profit margin, representing our net profit divided by turnover, was 23.6%, 33.7%, 38.1% and 34.5% for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Our future profitability depends on a number of factors, including whether we will continue to charge a price premium for our nutritional supplements and whether our target consumers will continue to have positive perceptions of our brands and products. In particular, we intend to use approximately RMB72.0 million to construct a new production line to manufacture products in the forms of soft gelatin capsules, canned powder and miniature bottled drinks, which may result in a significant increase in our cost of sales upon completion of the new production line. If we are unable to generate additional turnover to set off such increase in our cost of sales, our overall gross profit margin and gross profit margin of Zhongsheng series products may decrease. For the estimated increase in our cost of sales as a result of our construction of new production line, see "Summary – Our Business – Our Production". In addition, we recorded a relatively low utilization rate for our existing production facilities historically. If we are not able to generate sufficient turnover from our existing production facilities, we may have to recognize write-off in respect of such production facilities, which may adversely impact our profitability. Investors should be aware that there can be no assurance that we will be able to increase or maintain our historical profitability.

Any constraints on our production capacity would be detrimental to our business development and our production capacity expansion plan may not be successful.

As we manufacture a majority of our Zhongsheng series products in our own production facilities in Nanjing, Jiangsu province, our ability to supply products is partly limited by the capacity of our production facilities and workforce. We intend to further expand our existing production capacity by adding one production line in our current production base in Nanjing, Jiangsu province, for manufacturing of products in the forms of soft gelatin capsules, canned powder and miniature bottled drinks, which we currently lack capacity to manufacture, with a designed annual capacity of 800,000 units, 650,000 units and 2.0 million units, respectively. We also intend to build a research and development and testing center and an information and logistics control center in our production base in Nanjing, Jiangsu province. The entire expansion plan is expected to be completed by the end of 2015. We expect to incur a minimum of RMB100.0 million for our expansion plan, which will be funded by the proceeds from the

Global Offering and cash generated from our operations. Our Directors anticipate that our addition of new production facilities will result in an increase in depreciation cost of approximately RMB4.7 million on an annual basis, upon completion by the end of 2015, assuming a 10-year useful life of the new production line and a 20-year useful life of the associated production facilities. Although we intend to make efforts to achieve gross profit margins comparable to our historical level, we cannot assure you that our gross profit margin will not experience any decrease following completion of our new product facilities by the end of 2015.

In addition, we cannot assure you that our production capacity expansion plan will be executed by us in a timely manner or at a reasonable cost, or that we will have access to a sufficient number of skilled employees to operate and maintain our new production facilities. The time required to complete the production facilities may be impacted by inability to obtain or delays in obtaining necessary regulatory approvals, technical difficulties, human or other resource constraints or capital investment and funding constraints. We are also vulnerable to manufacturing interruptions caused by natural disasters or other unforeseen events. If we are unable to increase our production capacity effectively, in a timely manner or at all, our results of operations and growth prospects could be adversely affected.

Furthermore, we require significant capital to build, maintain and operate our new production facilities. As a substantial portion of our capital expenditure must be incurred in advance of any additional sales generated by our new production facilities, securing adequate funding will be essential to our expansion plans. There can be no assurance that such funding for upgrading or expanding our production facilities will be available to us. Moreover, the expansion of our production capacity may exceed our cost estimates and we may not reach full utilization of these facilities as envisioned which would increase our proportionate fixed costs. If we are unable to obtain funding in a timely manner, our growth, competitive position and future profitability could be materially and adversely affected.

The turnover derived from our individual products varies from period to period and the average selling prices of our major products fluctuated during the Track Record Period.

The turnover derived from our individual products varies from period to period, depending on a number of factors including the market demand for an individual product and our sales efforts devoted to it during a given period. During the Track Record Period, turnover derived from our certain major products decreased. For example, the turnover derived from our Coenzyme Q_{10} Tablets/Capsules decreased from RMB16.5 million for the six months ended June 30, 2012 to RMB15.0 million for the same period in 2013, and the turnover derived from our Linolenic Acid Soft Capsules significantly decreased from RMB12.6 million for the six months ended June 30, 2012 to RMB2.0 million for the same period in 2013. For the breakdown of our turnover, see "Financial Information – Description of Principal Consolidated Statements of Comprehensive Income Items". The decreased turnover derived from one or more major products may cause our total turnover to decrease and adversely affect our gross profit margin.

In addition, the average selling prices per unit of our major products fluctuated during the Track Record Period, which was primarily attributable to the change in the proportion of sales of products with different servings per unit, if the relevant products are offered with different servings, and the level of price discounts we offered to our customers driven principally by our sales efforts, customer feedback and market demand for individual products. We cannot assure you that we will be able to maintain a stable average selling price for a particular product in the future. For details of the underlying reasons of the fluctuations in the average selling prices of our major products, see "Financial Information – Factors Affecting Our Results of Operations and Financial Condition – Product Mix".

Our turnover has been, and may continue to be, significantly dependent on sales in certain geographic markets.

For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, 74.8%, 67.7%, 61.3% and 55.9% of our total turnover was derived from sales in our largest market, Jiangsu province. During the same periods, turnover derived from sales in our three largest geographic markets, namely Jiangsu, Guangdong and Zhejiang provinces, accounted for 93.1%, 90.8%, 91.6% and 88.6% of our total turnover, respectively. Although we have been entering into other markets in recent years and intend to further expand our retail network in the future, we may continue to derive a significant portion of our total turnover from certain geographic markets. Our sales and profitability in relation to these geographic markets could be negatively affected by a number of factors, including general economic conditions and demand for our products, adverse publicity relating to our products in these markets, local competition, or restrictions on the marketing or sales of our products in these markets due to local regulatory rules or decisions. Any significant decline in our sales or profitability from these geographic markets, due to the above factors or otherwise, could materially adversely affect our results of operations.

The success of our business depends significantly on our ability to maintain and enhance our brand awareness and customer loyalty.

We believe that brand image plays an important role in influencing consumers' decisions in purchasing our products. Our best-selling brands Zhongsheng and Cobayer are critical to the success of our business. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, we derived 70.1%, 87.8%, 94.5% and 82.9% of our turnover from sales of products under these two brands, respectively. Maintaining and enhancing our brand recognition and reputation depends primarily on the perceived effectiveness and quality of our products as well as the level of customer satisfaction and loyalty. We have devoted significant resources to maintain and improve customer satisfaction to gain customer loyalty in recent years and have launched two customer loyalty programs for customers of our Zhongsheng retail stores and Cobayer retail stores, respectively. We also intend to use a significant portion of the proceeds from the Global Offering to launch more media advertisements and engage celebrity spokespersons to increase our brand recognition and improve brand image in the next few years. However, our marketing and promotion efforts may not be successful or necessarily increase our overall sales or net income. In addition, our brand image may be harmed by negative publicity, regardless of its veracity, relating to our Company or our products, and the loyalty of our customers, including that of members of our two customer loyalty programs, may be harmed if we cannot maintain a high level of customer satisfaction. If we fail to successfully market or promote our brands or our brands are tarnished, demand for our current and future products may be materially adversely affected.

Unfavorable publicity or consumer perception of our products, the ingredients they contain and any similar products distributed by other companies could cause fluctuations in our operating results and could have a material adverse effect on our reputation, the demand for our products and our ability to generate revenues.

We are highly dependent upon consumer perception of the safety and quality of our products and the ingredients they contain, as well as similar products distributed by other companies. Consumer perception of products and the ingredients they contain can be significantly influenced by scientific research or findings, national media attention and other publicity about product use. A product may be received favorably, resulting in increasing sales associated with that product which may not be sustainable as consumer preferences change. Future scientific research or publicity may not be consistent with earlier favorable research or publicity and could be unfavorable to our industry or any of our particular products or the ingredients they contain. A future research report or publicity that is perceived by our consumers as less favorable or that questions earlier research or publicity could have a material adverse effect on our ability to generate revenues. As such, period-to-period comparisons of our results should not be relied upon as a measure of our future performance. Adverse publicity in the form of published scientific research or otherwise, whether or not accurate, that associates consumption of our products or the ingredients they contain or any other similar products distributed by other companies with illness or other adverse effects, that questions the benefits of our or similar products, or that claims that such products are ineffective, could have a material adverse effect on our reputation, the demand for our products and our ability to generate revenues.

Our failure to appropriately respond to changing consumer preferences and introduce new products could significantly harm our customer relationships and product sales.

The continued success of our business is particularly subject to changing consumer trends and preferences and our ability to anticipate and respond to these changes. If we are not able to respond in a timely or commercially appropriate manner to these changes, our customer relationships and product sales could be harmed significantly. Furthermore, the nutritional supplements industry is characterized by rapid and frequent changes in demand for new products. Our failure to accurately predict these trends by introducing new products could negatively impact consumer opinion of our Company. This could harm our customer relationships and cause losses to our market share. The success of our new product offerings depends upon a number of factors, including our ability to accurately anticipate customer needs, innovate and develop new products, successfully commercialize new products in a timely manner, price our products competitively, manufacture and deliver our products in sufficient volumes and in a timely manner, and differentiate our product offerings from those of our competitors.

If we do not introduce new products or make enhancements to meet the changing needs of our customers in a timely manner, some of our products could become obsolete, which could have a material adverse effect on our operating results.

We source a significant portion of our products from third-party manufacturers.

As of the Latest Practicable Date, substantially all of our Cobayer series products were imported from Australia and one dairy product was imported from New Zealand. We intend to continue to import our Cobayer series products from third-party manufacturers in Australia and New Zealand. As such, adverse changes to the environmental, climatic, economic, political and social conditions in Australia and New Zealand may have an adverse effect on our ability to obtain sufficient supplies of nutritional supplement products on a timely basis and/or at reasonable prices, which may consequently have a material adverse effect on our business, financial condition and results of operations. In August 2013, certain dairy products imported from New Zealand to China by certain other companies were reportedly found contaminated with bacteria that can cause botulism, which may adversely affect the consumer perception of Australian and New Zealand nutritional supplements in general and raise negative image and perception about our Cobayer series products, in particular, dairy products offered by us. In addition, if the PRC government takes actions to discourage, restrict or prohibit the import of any Australian or New Zealand nutritional supplements that we sell, the sales of our Cobayer series products may be negatively affected. As such, we may face difficulties to execute our business strategies and our sales of Cobayer series products may be interrupted, which may materially adversely affect our reputation and profitability.

In addition, we currently also rely on third-party manufacturers in China to manufacture certain other products in the form of soft gelatin capsules and miniature bottled drinks. We typically entered into agreements with the manufacturers in China with terms ranging from one year to three years and did not enter into annual agreements with the manufacturers in Australia or New Zealand. As such, there can be no assurance that our third-party manufacturers will not be entitled to or will not terminate these agreements. If any of these manufacturers are unable or unwilling to continue to manufacture these products for us at reasonable prices, or at all, we may be unable to locate alternative third-party manufacturers on a timely basis, or at all, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Furthermore, although we take steps to monitor the production process of these third-party manufacturers and to test the products manufactured by them, there can be no assurance that they will continue to maintain the quality of our products effectively, including but not limited to food safety related issues. Any problems with the products manufactured by our manufacturers could, among other things, result in liability to us and negatively affect our brand's image.

If we cannot open new self-managed retail stores on schedule and profitably, our planned future growth will be impeded, which would adversely affect sales and profitability.

Our growth is dependent on both increases in sales in existing retail stores and the ability to open profitable new retail stores. Increases in sales in existing stores are dependent on factors such as competition and store operations. Our ability to timely open new stores and to expand into additional market areas depends in part on the following factors: the availability of attractive store locations; the ability to negotiate acceptable lease or concessionaire terms; the ability to identify customer demand in different geographic areas; the hiring, training and retention of competent sales personnel; the effective management of inventory to meet the needs of new and existing stores on a timely basis; general economic conditions; and the availability of sufficient funds for expansion. Many of these factors are beyond our control. Delays or failures in opening new stores, or achieving lower than expected sales in new stores, could materially adversely affect our growth and profitability. In addition, we may not anticipate all of the challenges imposed by the expansion of our operations and, as a result, may not meet our targets for opening new stores or expanding profitably. For example, we closed a Zhongsheng retail store in the form of department store concession counter in Suzhou, Jiangsu province in September 2013, primarily due to this store's inability to meet our sales target.

Furthermore, some of our new stores may be located in areas where we have little or no meaningful experience or brand recognition. Those markets may have different competitive conditions, market conditions, consumer preferences and discretionary spending patterns than our existing markets, which may cause our new stores to be less successful than stores in our existing markets.

We may not be able to renew our business licenses and permits on a timely basis or at all.

Our business operation involves a number of licenses and permits, including business licenses, health food manufacturing permits, food circulation permits, CFDA approvals for our health food products and CFDA advertising approvals for health food products. Most of these licenses, permits and approvals are effective for a fixed term and we are required to renew their respective terms before expiration. The success of such renewal is subject to a number of factors, such as the timing of our submission of renewal applications to the competent authorities, and the regulatory requirements and government policy at both the national and local level which may be changed from time to time. If we are not able to renew our licenses, permits or approvals on a timely basis or at all, we may be required to suspend our operation of certain business or sales and marketing of certain products that may be affected, which may have a material adverse impact on our business operations and financial condition.

We operate in a highly competitive industry with no significant entry barriers. Our failure to compete effectively could adversely affect our market share, turnover and growth prospects.

The overall nutritional supplements market in China is competitive and rapidly evolving, and as there are no significant entry barriers for small enterprises, we expect competition in this market to persist and intensify. We face competition from other manufacturers and distributors of nutritional supplements, including multinational companies as well as domestic manufacturers and distributors of products with similar nutritional benefits that can be used as substitutes for our products.

Our competitiveness depends on a number of factors, including market awareness of our best-selling brands, namely, Zhongsheng and Cobayer, the effectiveness of our marketing activities, the quality of our products and customer service, and the breadth and depth of our sales network. Certain of our existing and potential competitors may have greater financial, technical, manufacturing and other resources than we do. Such competitors may also have greater brand name recognition, more established distribution networks, or more extensive knowledge of our target consumers and target markets. As a result, our competitors may be able to devote greater resources to the research, development, promotion and sale of their products or respond more quickly to the evolving industry standards, changes in customer preference and market conditions than we can.

In addition, the relatively low entry barriers in the nutritional supplements industry may lead to a number of impacts, including the saturation with many small enterprises, and negative consumer perception of our products as a result of similar products with adverse publicity offered by those small enterprises. It is also possible that there will be consolidation or alliances among our competitors and as a result, our market share may be affected. In addition, in order to increase sales, some competitors may also actively engage in activities, whether legal or illegal, designed to undermine our brands or to influence consumer confidence in our products.

If we are unable to maintain our competitive position or otherwise respond to competitive pressure effectively, the sales of our products may decrease, we may lose market share and our operating results may be adversely affected. Intense competition may also lead to pricing pressure on our products, which could adversely affect our turnover and profitability.

We may fail to secure space for our self-managed retail stores on commercially reasonable terms.

We enter into concessionaire and lease agreements to obtain retail space for the operation of our self-managed retail stores. The concession fees (excluding administrative fees and other miscellaneous fees) and rental expense associated with our retail business amounted to RMB1.1 million, RMB1.4 million, RMB3.9 million and RMB3.0 million for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively.

We cannot assure you that we will be able to maintain suitable retail space to our satisfaction for our existing retail stores with concession fees or lease terms that are acceptable to us, or at all. Some of our concessionaire agreements with shopping malls require us to meet certain performance targets. As such, if we are not able to meet certain performance targets, our ability to renew our concessionaire agreements with shopping malls may be adversely affected. In addition, a majority of our concessionaire agreements with shopping malls for Cobayer retail stores will expire by December 31, 2014 or December 31, 2015. Substantially all of our lease agreements for Zhongsheng retail stores will expire by December 31, 2014. Though the market rental rates in the PRC during the Track Record Period were relatively stable, and the increase in our concession fees and rental expenses during the Track Record Period was mainly due to the increase in the numbers of our retail stores, we cannot assure you that we will be able to renew our existing concessionaire or lease agreements upon expiration or on terms and conditions that are acceptable to us. In addition, some of our concessionaire agreements for Cobayer retail stores require us to meet certain minimum monthly turnover targets and our failure to meet such requirements may result in re-negotiation of the location available to us under the concessionaire agreements or termination of the concessionaire agreements. If any of our existing concessionaire or lease agreements cannot be renewed or are terminated, we will have to find alternative premises that may not be located in areas that offer similar business environments. In addition, failure to renew our retail space will provide an opportunity for competitors to move into such retail spaces previously occupied by us. Accordingly, failure to secure retail space for our self-managed retail stores on terms that are acceptable to us may lead to decreases in our turnover and increases in our cost of operations.

The health food products industry is heavily regulated in China, and any failure to comply with, and changes in, the regulatory requirements or any regulatory actions against us or our products could adversely affect our business prospects and results of operations.

The health food products industry in China is subject to extensive government regulation and supervision. The regulatory framework addresses every aspect of operation in the nutritional supplements industry in China, including CFDA issued health food product approvals and registration, product processing, formulation, manufacturing, packaging, labeling, distribution and sale, product advertising and maintenance of manufacturing facilities. For details of the summary of the relevant regulations, see "Regulatory Overview" and "Appendix V – Summary of Principal Laws and Regulations" in this prospectus.

Any failure to comply with these complex regulatory requirements could adversely affect our business prospects and results of operations. In addition, the regulatory framework regarding the nutritional supplements industry in China is quickly evolving. Additional or more stringent regulations on the nutritional supplements industry has been and may continue to be adopted from time to time in China. For example, CFDA issued a Notice on Carrying on A Special Campaign Against Four Illegal Activities Regarding Health Food Products (國家食品藥品監督管理總局關於印發打擊保健食品"四非"專項行動工作方案的通知) on May 13, 2013 and launched a nationwide campaign to eliminate illegal production, illegal operation, illegal ingredients and illegal advertising in respect of health food products in China. Complying with new standards or requirements may be time-consuming and expensive and could result in delays in obtaining CFDA approvals for our product candidates, or possibly preclude us from launching new products on schedule, with a reasonable cost or at all. As a result, we may not be able to recover our upfront research and development, manufacturing, testing and other costs, and our business may fail to grow as quickly as we anticipate.

Historically some of our product advertisements have been declared not being in full compliance with applicable regulations.

PRC advertising laws and regulations require advertising content to be fair and accurate, not misleading and in full compliance with applicable laws. Contents of advertisements relating to our health food products must be filed with the provincial agency of CFDA, or other competent authorities, and the required permits and approvals from the provincial agency of CFDA or other competent authorities must be obtained before their publication or broadcasting. Violation of these laws or regulations may result in penalties, including fines and orders to cease dissemination of the advertisements, and in severe circumstances, orders to publish an advertisement correcting the misleading information, revocation of the advertisement approval associated with the relevant product and even criminal liabilities. According to our PRC legal advisor, Yongheng Partners, the competent authorities to impose these penalties are SAIC and its local agencies. In addition, the provincial agency of CFDA may also issue a safety warning to the public and publish the names of the violators.

Between 2006 and 2011, Jiangsu provincial agency of CFDA posted public notices on its website stating that advertisements of our certain products were not in full compliance with applicable regulations. The non-compliance instances stated in the public notices include (i) improperly claiming, overstating or guaranteeing the effect of our Coenzyme Q_{10} Capsules and Keda Propolis Yangshengbao Capsules which may mislead consumers; (ii) failure to disclose the advertisement approval of our Coenzyme Q_{10} Capsules; (iii) posting of advertisements of our Coenzyme Q_{10} Tablets and Keda Propolis Yangshengbao Capsules without obtaining prior CFDA advertisement approval; (iv) amending the approved advertisements of Keda Propolis Yangshengbao Capsules without obtaining prior CFDA approval; and (v) improperly claiming, overstating or guaranteeing the effect of, and using the name or image of government authorities, research institutions, experts, doctors or patients in the advertisements of, Zhongke Ganoderma Spore Capsules (中科牌靈芝孢子膠囊), a third-party product sold by us before early 2006. Our PRC legal advisor, Yongheng Partners, is of the view that we or any of our Directors would not be subject to penalties for these historical non-compliance instances. In addition, our Directors believe that we did not publish non-compliant advertisements of Coenzyme Q_{10} Tablets and Zhongke Ganoderma Spore Capsules. For details, see “Business – Legal and Compliance”.

Our non-compliance instances were primarily due to our lack of a comprehensive system to review, monitor and manage the advertisement activities of our subsidiaries. To ensure our future advertisements are in full compliance with applicable regulations, we have adopted a number of internal control measures. Notwithstanding these measures, we cannot assure you that there will not be any future occurrence of our non-compliance with applicable advertising laws and regulations. If we are found in violations of such laws and regulations in the future, we may face similar or more serious penalties including increased amounts of fines, discontinuance of our marketing and advertising activities and discontinuance of our sales activities in certain designated markets. As a result, we may not be able to broadcast new advertisements in a timely manner, and our turnover and reputation could be materially affected. Moreover, government actions and civil claims may be brought against us for misleading or inaccurate advertisements. We may have to spend significant resources in defending against such actions, and these actions may damage our reputation, result in reduced turnover and negatively affect our results of operation.

For further details of our historical non-compliance instances, see "Business – Legal and Compliance" in this prospectus.

Any unexpected or undesirable side effects or injury caused by our products to consumers could result in costly product recalls or product liability claims, which in turn could lead to severe reputational damage, monetary losses or lawsuits.

As a manufacturer and retailer of products designed for human consumption, we are subject to product liability claims or product recalls if the use of our products is alleged to have resulted in side effects or injury. Our products contain a number of ingredients, some or the combination of which may cause side effects or injuries that are unknown to us. Likewise, some of the raw materials we use in our production may contain harmful chemicals or substances of which we are not aware and may cause undesirable side effects or injuries to our consumers. During the Track Record Period and up to the Latest Practicable Date, we had not experienced product recall for any of our products sold in our retail stores or by our distributors. In 2010, one particular batch of our Essence of Kangaroo Capsules, which was one of the first Cobayer series products launched by us, did not pass the quality test of CIQ because its lead content exceeded the permitted amount in China and was returned to the third-party manufacturer in Australia before our receiving and selling such batch of products. For details of this incident and rectification actions taken by us, see "Business – Production, Quality Control and Supplies – Production of Cobayer Series Products – Control of product safety and quality". Other than this batch of products in 2010, all of the other products we imported from overseas during the Track Record Period and up to the Latest Practicable Date have passed the quality test of CIQ.

However, there can be no assurance that there will not be quality issues or undesirable side effects with our products in the future. If our products cause any serious side effect or injury, or if our products are perceived to cause such side effect or injury, our products may have to be recalled from the market. In addition, as of the Latest Practicable Date, we only had product liability insurance for two of our best-selling products, namely Coenzyme Q_{10} Tablets and Coenzyme Q_{10} Capsules, with an aggregate coverage of RMB1.0 million for a one-year insurance period, which may not be sufficient to cover large product liability claim, if any. We did not maintain product liability insurance for any other products. A product recall or large product liability claim, even if unfounded, could therefore result in substantial and unexpected expenditures, which would reduce our operating profit and cash flow, and may require significant management attention. Furthermore, a product recall or large product liability claim may hurt the value of our brands, our reputation and demand for our products and may also lead to increased scrutiny of our operations by regulatory agencies.

We may not be able to successfully identify investment and acquisition targets or complete acquisitions or integrate the acquired businesses as expected.

One of our business strategies is to identify investment and acquisition opportunities to further grow our business. Our potential target opportunities may include those related to the expansion of retail network, improvement of research and development capabilities and vertical integration of supply chain, manufacturing process and other aspects of our business operations. Acquisitions in general involve numerous risks and uncertainties, including but not limited to:

- the suitability of the acquisition targets or our ability to complete acquisitions on acceptable terms;
- the availability, terms and costs of any financing required to make an acquisition;
- delays in securing or inability to secure necessary governmental approval and third-party consents;
- potential negative effects on our liquidity position;
- the diversion of resources and management attention from our existing business;
- potential ongoing financial obligations and unforeseen or hidden liabilities of our acquisition targets;
- the costs of and difficulties in integrating acquired businesses, managing enlarged business operations and operating in new markets, regulatory environments and geographic regions;
- our failure to deliver the expected synergies, to achieve the intended objectives or benefits, or to generate sufficient turnover to recover the costs and expenses of an acquisition; and
- dilution of our earnings per Share or decrease in our margins due to the lower profitability of an acquired business.

Our failure to address these risks successfully may have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Our business could be harmed by a failure of our information systems.

We maintain a computerized information system that integrates the functions of stock replenishment, inventory distribution and sales and also have a centralized customer service database with information about our existing and potential customers. These systems are significantly important to the success of our business. In particular, we rely on our customer service database to manage our customer base and provide personalized customer services and health solutions to our customers. Our information systems are developed by third-party software development companies and are vulnerable to damage or interruption from fire, flood, earthquakes, power loss, server failure, back-up failure, telecommunications and internet service failure, computer viruses and denial-of-service attacks, physical or electronic breaches, human error and similar events. Any of these events could lead to system interruptions, processing and order fulfillment delays and loss of critical data for us, our suppliers or our internet service providers, and could prevent us from processing customer purchases. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material system failure. However, any significant interruption in the availability or functionality of our website or our customer processing or communications systems, for any reason, could seriously harm our business, financial condition and operating results. In addition, because we are dependent on third-party service providers for the implementation and maintenance of certain aspects of our systems and operations and because some of the causes of system interruptions may be out of our control, we may not be able to remedy such interruptions in a timely manner, if at all.

An increase in the price and shortage of supply of raw materials and packaging materials could adversely affect our business.

Our products are composed of certain raw materials such as nutraceuticals, herb extracts, vitamins and mineral products as well as packaging materials. We are vulnerable to increases in the prices of these raw materials and packaging materials, which are determined principally by market forces and our bargaining power vis-a-vis our suppliers. The increase in the prices of raw materials and packaging materials in Australia and New Zealand may also result in a significant increase in our purchase price when we source finished products from our third-party manufacturers in Australia and New Zealand. If the prices of these raw materials and packaging materials were to increase significantly, we may not be able to offset all price increases by raising the prices of our products. Moreover, we may lose competitive advantage if the prices of our products increase significantly. If the prices of raw materials and packaging materials increase in the future and we cannot pass on such increases to our customers, we may not be able to maintain our current gross profit margins and our business, financial condition and results of operations may be materially and adversely affected.

We may also experience a shortage in the supply of certain raw materials or packaging materials, which could materially and adversely affect our production and results of operations. We do not have guaranteed or long-term supply contracts with any of our raw material or packaging material suppliers, and some of our suppliers may, without notice or penalty, terminate their relationship with us at any time. If any supplier is unwilling or unable to provide us with high quality raw materials or packaging materials in required quantities and at acceptable prices, we may be unable to find alternative sources or at commercially acceptable prices, on satisfactory terms, in a timely manner, or at all. In addition, some of our raw materials are procured from certain PRC trading companies which import these raw materials from overseas, and may be subject to various PRC governmental permit requirements, approval procedures and import duties, as well as export controls and other legal restrictions that may be imposed by foreign countries.

Our turnover is subject to our concessionaire agreements with shopping malls containing revenue sharing terms.

All of our Cobayer retail stores are concessions in shopping malls and a majority of the concessionaire agreements we have entered into with the shopping malls contain revenue sharing terms, pursuant to which the concession fees are typically calculated as a percentage ranging from approximately 18% to approximately 25% of our monthly turnover, or the higher of the basic monthly fee ranging from approximately RMB8,000 to approximately RMB54,000 and a percentage of our monthly turnover ranging from 16% to 27%, depending on the bargaining position of the relevant shopping malls. To the extent that we are unable to obtain favorable terms when renewing the concessionaire agreements with the shopping malls, our net profit from the sales of our Cobayer retail stores may decrease and our results of operations may be adversely affected. In addition, when we negotiate with target shopping malls to open new Cobayer retail stores, we may not be able to secure revenue sharing arrangements on acceptable terms or at all. Furthermore, the shopping malls typically first collect the payment from our retail customers and we settle our payment with the shopping malls within a pre-agreed period, which ranges from 15 to 60 days. If the shopping malls do not pay us our turnover in a timely manner or at all, our results of operations and financial condition may be materially and adversely affected.

We have historically experienced seasonality, which we expect to continue. This could cause operating results to fluctuate.

Our results of operations are affected by seasonal fluctuations in demand for nutritional supplements. We experience higher sales during major holidays in China, such as the Labor Day Holidays in May, the Mid-Autumn Festival and the National Day Holidays in September and October and Christmas and the New Year at the year end. As a result, our sales in the fourth quarter are typically higher than any other quarter in a year. As such, we believe that comparisons of our operating results and net profit over any interim periods may not be meaningful.

We may need additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to grow our business.

We believe that our current cash and cash equivalents, cash flow from operations and the proceeds from the Global Offering should be sufficient to meet our anticipated capital needs for the foreseeable future. We may, however, need to sell additional equity or debt securities or obtain a credit facility if our expenditures exceed our current expectations. The sale of additional equity securities could result in dilution to our Shareholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financing covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product offerings to respond to market demand or competitive challenges.

Our success and business operations are largely dependent on certain key personnel and our ability to attract and retain talented personnel.

Our future success depends heavily on the continued services of our senior executives, technical personnel and other key employees. In particular, we rely on the expertise, experience and leadership of Mr. Gui, our Chairman, who plays a vital role in our operation. Mr. Gui has over 14 years of experience in the consumer product industry, and his expertise in business strategies, product development, business operations, sales and marketing, regulatory compliance and relationships with our suppliers and third-party manufacturers are crucial to us. We do not maintain key man insurance for any of our key personnel. If one or more of our senior executives or other key employees are unable or unwilling to continue in their present positions, we may not be able to replace them promptly or at all, which may severely disrupt our business and affect our results of operations and future prospects. Moreover, we may not be able to attract or retain highly skilled employees or key personnel. The competition for qualified personnel in China may also drive up our labor costs, which would in turn increase our costs of operations and affect our profitability. In such circumstances, our business, financial condition and results of operations may be materially and adversely affected.

Fluctuations in the labor costs could adversely affect our business and financial performance.

Our ability to expand our retail network and offer new products must be supported by skillful workforce. In particular, as part of our expansion of retail network on a nationwide basis, we need to hire additional sales staff and customer service representatives with the requisite skill to continuously provide services to our customers. In addition, with rising costs of living and wages in China, we may also need to review and adjust compensation packages of our employees on an annual basis. As a result, we may experience increases in labor costs in the future, which have been increasing over the recent years. Our labor costs increased from RMB1.0 million in 2011 to RMB1.5 million in 2012, and from RMB0.6 million for the six months ended June 30, 2012 to RMB1.0 million for the same period in 2013. If we fail to pass any or all of the increased costs on to our customers, our profitability will be adversely affected. See "Financial Information – Description of Principal Consolidated Statements of Comprehensive Income Items – Cost of Sales" for more information.

Any failure to protect our intellectual property rights could undermine our competitive position, and litigation to protect our intellectual property rights may be costly and ineffective.

Our "Zhongsheng" brand is a "Nanjing Famous Trademark" (南京市知名商標). We consider our trade secrets, trademarks, trade names, copyrights and other intellectual property important to our business. Our intellectual properties may be used or infringed by third parties. Preventing intellectual property infringement, particularly in China, is difficult, costly and time consuming and continued unauthorized use of our intellectual properties by unrelated third parties may damage our reputation and brand. The measures we take to protect our trade secrets, trademarks, trade names, copyrights and other intellectual property rights may not be adequate to prevent unauthorized use by third parties. If we are unable to adequately protect our intellectual property rights, we may lose these rights, our brand name may be harmed, and our competitive position and business may suffer.

We may be exposed to intellectual property infringement claims by third parties, which could disrupt our business and cause us to incur substantial legal costs, or damage our reputation.

Although we are not aware of any third-party intellectual property rights that our products currently infringe, we cannot assure you that our products will not infringe any intellectual property rights held by third parties. We may receive claims of infringement of third parties' proprietary rights or claims for indemnification resulting from infringement arising from our products. Also, we may be unaware of intellectual property registrations or applications relating to our products or business operations that may give rise to potential infringement claims against us. There may also be technologies licensed to and relied on by us that are subject to infringement or other corresponding allegations or claims by third parties. We are subject to additional risks as a result of our recent and future acquisitions and the hiring of our current and new employees, especially those that were previously employed by our competitors, who may misappropriate intellectual property from their former employers.

Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our products or using technology or formulae involving the allegedly infringing intellectual property. Intellectual property litigation is expensive and time-consuming and could divert management's attention from our business. A successful infringement claim against us could, among others things, require us to pay substantial damages, develop non-infringing technology, enter into royalty or license agreements that may not be available on acceptable terms, if at all, or cease manufacturing, selling or using products that have infringed a third party's intellectual property rights. Any intellectual property claim or litigation, whether we ultimately win or lose, could damage our reputation and have a material adverse effect on our business, results of operations or financial condition.

Our legal right to lease certain properties could be challenged by property owners or other third parties.

As of Latest Practicable Date, we rented 44 properties in the PRC and one property in Australia, with an aggregate floor area of approximately 3,986.4 square meters, for our retail stores, offices and warehouses. With respect to these leased properties, lessors for ten out of our 44 leases in the PRC did not provide building ownership certificates or other documents as of the Latest Practicable Date evidencing that the relevant lessors have requisite titles or rights to lease the properties to us. As of the Latest Practicable Date, the floor area of such properties was approximately 859.6 square meters, representing approximately 21.6% of the aggregate floor area of the properties leased by our Group. If such lessors are not the ultimate owners of the leased properties, no consents or permits were obtained from the ultimate owners, or there are any third parties who otherwise have rights to or interests in such properties, the validity of the leases will be adversely affected. In any such case, we may terminate the lease, but locating a new lease may disrupt our operations. Any challenge to our legal rights to the leased properties, if successful, could affect our business operations in such properties. We could also be subject to the risk of potential disputes with property owners or third parties who otherwise have rights to or interests in such properties. In addition, nine out of our 44 leases in the PRC have not been registered with the relevant local government authority, as required under PRC laws. Although we have been advised by our PRC legal advisor, Yongheng Partners, that, as a general principle, lack of registration of a lease agreement does not affect the validity of rights existing under such lease agreements, both our lessors and our Company may be subject to potential monetary fines imposed by relevant government authorities.

Our business operations may be materially and adversely affected by present or future environmental regulations or enforcement and we deal with potentially hazardous materials that may cause environmental contamination or injury to others.

We are subject to PRC laws, rules and regulations concerning the discharge of waste water and solid waste during our manufacturing processes. In addition, we are required to obtain clearances and authorizations from government authorities for the treatment and disposal of such discharge. We cannot assure you that we will be able to comply fully at all times with applicable environmental regulations. Any violation of these regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our facilities and obligations to take corrective measures. Furthermore, the cost of complying with current and future environmental protection laws, rules and regulations and the liabilities which may potentially arise from the discharge of effluent water and solid waste could decrease our profit by increasing our costs.

Moreover, the PRC government may take steps towards the adoption of more stringent environmental regulations. Due to the possibility of unanticipated regulatory or other developments, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated. If there is any change in the environmental regulations, we may need to incur substantial capital expenditures to install, replace, upgrade or supplement our pollution control equipment, take additional protective and other measures against potential contamination or injury caused by hazardous materials, or make operational changes to limit any adverse impact or potential adverse impact on the environment. If these costs become significantly more expensive, we may be forced to cease certain of our manufacturing operations. In addition, environmental liability insurance is not commonly available in the PRC. Consequently, any significant environmental liability claims, if successfully brought against us, could have a material adverse effect on our business, financial condition and results of operations.

Our insurance coverage may not completely cover the risks related to our business and operations.

Our business exposes us to potential product liability risks that are inherent in the manufacturing and marketing of nutritional supplements. We currently only carry product liability insurance for two of our best-selling products Coenzyme Q_{10} Tablets and Coenzyme Q_{10} Capsules with an aggregate coverage of RMB1.0 million for a one-year insurance period, as well as a vehicle insurance coverage on commercial vehicles we own. Our insurance coverage may not be sufficient to cover liabilities resulting from product liability claims. A successful product liability claim or series of claims could have a material adverse impact on our business, financial condition and results of operations. In addition, there are certain types of losses, such as those arising from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters, for which we cannot obtain insurance at a reasonable cost or at all. Should an accident, natural disaster or terrorist act occur, or should an uninsured loss occur, we could suffer from financial losses as well as damage to our reputation, or lose all or a portion of our production capacity, which could materially and adversely affect our business, financial condition and results of operations.

The uncertainty of the PRC economic conditions could have a material adverse impact on our financial condition and results of operations.

The economic growth of major emerging economies such as the PRC has also slowed down. According to the National Bureau of Statistics of China, the GDP growth in the PRC has slowed down in most recent years. Uncertainties in the PRC and global economies could have adverse impact on, among others, consumer spending, consumer confidence, the level of customer traffic within shopping malls and other shopping environments. Consumer product purchases, including purchases of our products, may decline during recessionary periods. A prolonged downturn or an uncertain outlook in the economy may materially adversely affect our business, financial condition and results of operations.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Changes in the economic, political and social conditions in the PRC and policies adopted by the PRC government could materially and adversely affect our business.

Substantially all of our assets are located in China, and during the Track Record Period, we derived substantially all of our turnover from our operations in China. As a result, our financial condition and results of operations are to a large extent influenced by the economic, political and social conditions and development and the government policies of the PRC. Although the PRC's economy has been transitioning from a planned economy to a more market-oriented economy for more than three decades, the PRC government still exercises significant control over the economic growth of the PRC through allocating resources, controlling foreign exchange, setting monetary policy and providing preferential treatments to particular industries or companies. In recent years, the PRC government has implemented economic reform measures emphasizing the use of market forces to drive economic development. These economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, some of these measures may benefit the overall PRC economy, but some of them may have a negative effect on the industry or markets in which we operate. The PRC has been one of the world's fastest growing economies as measured by GDP in recent years. However, there can be no assurance that the PRC economy will be able to sustain such a growth rate, and the PRC GDP growth has experienced a slowdown in recent years. In 2008, the PRC economy experienced a slowdown in growth primarily as a result of the global financial crisis and economic downturn. To stimulate the growth of the PRC economy, the PRC government implemented various monetary and other economic measures to expand investment in infrastructure, increase liquidity in the credit markets and create more employment opportunities. However, there is no assurance that another financial crisis and economic downturn will not occur. Substantially all of our turnover during the Track Record Period was attributable to sales made within the PRC. As such, our future success is substantially dependent on economic, political and social conditions in the PRC. Any adverse changes in the PRC's political and social conditions and any slowdown or recession of the PRC's economy could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We face foreign exchange risk, and fluctuations in exchange rates could have a material and adverse effect on our business and investors' investment.

We are exposed to foreign currency risk primarily for our purchases in Australian dollars and New Zealand dollars from third-party manufacturers in Australia and New Zealand. As substantially all of our sales are denominated in Renminbi, the appreciation or depreciation of Renminbi against Australian dollars and New Zealand dollars may have a significant impact on our profitability. For example, a depreciation of Renminbi could increase our costs of purchasing products from Australia and New Zealand, as such depreciation would require us to convert more Renminbi to obtain the equivalent foreign currency necessary to tender payment. In particular, our foreign currency risk may continue to increase in the future, taking into consideration our retail network expansion plan to open additional Cobayer retail stores from 2014 to 2016, which is expected to be supported by increased purchases from third-party manufacturers in Australia and New Zealand. We have not used any derivative contracts to hedge against our exposure to foreign currency risk.

The value of Renminbi against foreign currencies, including Australian dollars and New Zealand dollars, fluctuates and is affected by, among other things, changes in PRC and international political and economic conditions and the PRC government's fiscal, monetary and currency policies. Since 1994, the conversion of Renminbi into foreign currencies has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 10, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. The PRC government has since made, and in the future may make, further adjustments to the exchange rate system.

There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which, together with domestic policy considerations, could result in a further and more significant appreciation of Renminbi against the U.S. dollar, the Hong Kong dollar or other foreign currencies. As we will need to convert part of the proceeds denominated in Hong Kong dollars from the Global Offering into Renminbi, the appreciation of Renminbi against the Hong Kong dollar could reduce the amount of Renminbi that would be available for our use upon conversion of such proceeds to Renminbi. We cannot predict how Renminbi will fluctuate in the future. As a result, the fluctuation in the exchange rate between Renminbi and other currencies could have a material and adverse effect on our business, financial condition and results of operations.

The PRC government's control of foreign currency conversion may limit our foreign exchange transactions, including dividend payments on our H Shares.

Currently, Renminbi still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange laws and regulations which would affect exchange rates and our foreign exchange transactions. It cannot be guaranteed that under a certain exchange rate, we will have sufficient foreign currencies to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require prior approval from the SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. As a result, following completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. Our foreign exchange transactions under the capital account, however, must be approved in advance by the SAFE.

There can be no assurance that the policies regarding foreign exchange transactions under the current account and the capital account will continue in the future. In addition, these foreign exchange policies may restrict our ability to obtain sufficient foreign exchange, which could have an effect on our foreign exchange transactions and the fulfillment of our other foreign exchange requirements. If there are changes in the policies regarding the payment of dividends in foreign currencies to shareholders or other changes in foreign exchange policies resulting in insufficient foreign exchange, our payment of dividends in foreign currencies may be affected. If we fail to obtain approval from the SAFE to convert Renminbi into any foreign exchange for foreign exchange transactions, our capital expenditure plans, and even our business, financial condition and results of operations, may be adversely affected.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our Shareholders, including periods in which we are profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, because the calculation of distributable profit under PRC GAAP is different from the calculation under HKFRS in certain respects, our operating subsidiaries may not have distributable profit as determined under PRC GAAP, even if they have profit for that year as determined under HKFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could negatively impact our cash flow and our ability to make dividend distributions to our Shareholders, including periods in which we are profitable.

Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our H Shares.

Under current PRC tax laws, regulations and rules, foreign individuals and foreign enterprises that are not PRC residents are subject to different tax obligations with respect to the dividends paid by us or the gains realized upon the sale or other disposition of H shares.

Foreign individuals who are not PRC residents are required to pay PRC individual income tax at 20% rate under the PRC Individual Income Tax Law (中華人民共和國個人所得稅法). Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations. Generally, a convenient tax rate of 10% shall apply to the dividends paid by a company listed in Hong Kong to foreign individuals without application according to the treaties. When a tax rate of 10% is not applicable, the withholding company shall: (i) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (ii) withhold such foreign individual income tax at the applicable tax rate if the applicable tax rate is between 10% and 20%; and (iii) withhold such foreign individual income tax at a rate of 20% if no relevant taxation treaty is applicable.

For foreign enterprises that do not have offices or establishments in the PRC, or have offices or establishments in the PRC but to which their income is not related, under the EIT Law and its implementation rules, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H shares are ordinarily subject to PRC enterprise income tax at a rate of 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the relevant foreign enterprise's residence. In accordance with the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Nonresident Enterprises (Guo Shui Han [2008] No. 897) (關於中國居民企業向境外H股非居民企業股東派發股息代繳企業所得稅有關問題的通知國稅函[2008]897號) which became effective from November 6, 2008, 10% withholding tax shall be imposed on dividends paid by Chinese resident enterprises to holders of H shares that are overseas non-resident enterprises. These holders of H shares may apply for tax refunds in accordance with applicable tax treaties or arrangements, if any. In addition, the PRC tax laws, rules and regulations may also change from time to time. If the tax rates stipulated in the EIT Law and the related implementation rules are amended, the value of your investment in our H Shares could be materially and adversely affected.

In addition, it is also unclear whether and how the PRC individual income tax and enterprise income tax on gains realized by non-resident holders of H shares through the sale, or transfer by other means, of H shares will be collected by the PRC tax authorities in the future, although such tax has not been collected by the PRC tax authorities in practice. Considering these uncertainties, non-resident holders of our H Shares should be aware that they may be obligated to pay PRC income tax on the dividends and gains realized through sale or transfers of the H Shares. For additional information, see "Appendix IV – Taxation and Foreign Exchange" in this prospectus.

The PRC legal system is still evolving and there are inherent uncertainties as to interpretation and implementation of laws, which could limit the legal protection available to us and to our Shareholders.

Our Company and most of our subsidiaries are incorporated in the PRC, and most of our business is operated in the PRC as well. These entities and operations must therefore comply with the laws of the PRC. The PRC legal system is based on written statutes and various administrative regulations and policy decrees. Prior court decisions or rulings may be cited for reference in courts and administrative proceedings but have limited precedential value. Since the 1970s, the PRC government has been committed to developing and refining its legal system and has achieved significant progress in its laws and regulations governing economic matters such as shareholders' rights, foreign investment, company organization and management, business, tax and trade. However, PRC laws and regulations are still evolving, and because of the limited number and non-binding nature of published cases, there exist uncertainties about their interpretation and implementation. Depending on the government agency or how an application or case is presented to such agency, we may receive less favorable interpretations of laws and regulations than our competitors, or we may receive interpretations that are inconsistent with our interpretations. These uncertainties may impede our ability to enforce the contracts we have entered into with our clients, suppliers and other business partners. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the pre-emption of local regulations by national laws, or the overturn of local government decisions.

These uncertainties may limit legal protections available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention and have a material adverse effect on our business, prospects, financial condition and results of operations.

It may be difficult to effect service of process upon, or to enforce any judgments obtained outside the PRC against, us, our Directors, Supervisors, or our senior management members who live in the PRC.

Substantially all of our existing Directors, Supervisors and senior management members reside in the PRC and substantially all of our assets and the assets of such persons are located in the PRC. Accordingly, it may be difficult for investors to effect service of process from outside PRC upon us or those persons in the PRC. In addition, the enforcement of foreign judgments in the PRC involves uncertainty. If there exists a treaty between an overseas jurisdiction and the PRC or a similar judgment made by a PRC court has been recognized before such foreign judgment, the judgment made in the jurisdiction might be recognized and enforced in the PRC. However, recognition and enforcement in the PRC of judgments of certain overseas courts in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on our business operation, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics, including but not limited to those caused by avian influenza or swine influenza, may restrict business activities in the areas affected and materially and adversely affect our business and results of operations. For example, in 2009 and 2013, there were reports of the occurrence of two types of avian influenza in certain regions of the world, including the PRC, where we operate our business. Moreover, the PRC has experienced natural disasters like earthquakes, floods and droughts in the past few years. Any future occurrence of several natural disasters in the PRC may materially and adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics, or the measures taken by the PRC government or other countries in response to such disasters and epidemics, will not seriously disrupt our operations, which may have a material and adverse effect on our business and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares. The trading volume and market price of our H Shares following the Global Offering may be volatile.

Prior to the Global Offering, there was no public market for our H Shares. The initial offer price range to the public for our H Shares was the result of negotiations between us and the Sole Global Coordinator on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Hong Kong Stock Exchange. However, the Global Offering does not guarantee that an active liquid public trading market for our H Shares will develop. In addition, the price and trading volumes of our H Shares may be volatile. Factors such as variations in our turnover, earnings and cash flows or any other developments of our Company may affect the volume and price at which our H Shares will be traded.

Future sales, or market perception of sales, of substantial amounts of our H Shares in the public market, including any future offerings, could have a material adverse effect on the market price of our H Shares and make it difficult for you to recover the full value of your investment.

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new H Shares or other securities relating to our H Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amount of our H Shares could materially and adversely affect the market prices of our H Shares and may also materially and adversely affect our ability to raise capital in the future. In addition, our Shareholders would experience dilution in their holdings upon our issuance or sale of additional securities in future offerings.

There can be no assurance if and when we will pay dividends in the future.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by our Board of Directors at its discretion and will be subject to our Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or HKFRS (whichever is lower), our Articles of Association, the PRC Company Law and any other applicable PRC law and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. As a result, although we have paid dividends in the past, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See "Financial Information – Dividend Policy" in this prospectus for more details of our dividend policy.

You will experience immediate dilution and may experience further dilution if we issue additional Shares.

Potential investors will pay a price per H Share that substantially exceeds the per H Share value of our Company's tangible assets after subtracting our Company's total liabilities and will therefore experience immediate dilution when purchasing the H Shares offered in the Global Offering. As a result, if our Company were to distribute its net tangible assets to our Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their H Shares. In addition, if we issue additional H Shares or equity-linked securities at a price lower than the net tangible asset value per H Share at the time of issuance, you and other purchasers of our H Shares may experience further dilution in the net tangible asset value per H Share.

The industry statistics and forward-looking information contained in this prospectus may not be accurate, reliable or fair.

Statistical and other information relating to the PRC and our industry contained in the section headed "Industry Overview" in this prospectus have been compiled partly from various publicly available PRC official government publications as well as an industry report we commissioned from SMERI, an independent research institute. We believe that the sources of such information are appropriate for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, we cannot guarantee the quality of such sourced materials. Moreover, statistics derived from multiple sources may not be prepared on a comparable basis. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such official government facts, forecasts or statistics.