Prospective investor should consider carefully all the information set forth in this [REDACTED] and, in particular, should consider the following risks before making any investment decision in relation to the [REDACTED]. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospect of our Group. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our success is dependent on our core brand of "Zeus (中智)" and any negative publicity of "Zeus (中智)" would adversely affect our operating results and financial condition.

The principal trademark of our Group is "Zeus (中智)". All our chain pharmacies are operated under the "Zeus (中智)" brand, which has gained strong market recognition in Zhongshan. On the other hand, most of our own-branded products are sold under our core brand of "Zeus (中智)". During the Track Record Period, our own-branded products accounted for approximately 55.2%, 56.6% and 61.5% of our total revenue for each of the three years ended 31 December 2014, respectively. Our Directors take the view that the business growth depends heavily on the public perception of our brand and anticipate that we will continue to rely on the "Zeus (中智)" brand in our operations in the future.

If there are any claims against us which would adversely affect our brand image or public perception of the "Zeus (中智)" brand (such as any legal or administrative proceedings whatsoever against us relating to any alleged inferior quality of our own-branded products or other non-own branded products sold at our chain pharmacies), regardless of whether the claims are meritless or unfounded, it may damage our corporate image. Further, handling such proceedings and their respective consequences could be costly and would divert our management's attention from our business. Once our corporate image and/or our brand reputation are impaired, our results of operation and our financial condition could be adversely affected.

Our revenue was mainly generated from the Guangdong province, the PRC. Any adverse change in the economic, political or social conditions in the region may materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we derived a majority of our revenue from the Guangdong province. For each of the three years ended 31 December 2014, revenue derived from the Guangdong province amounted to approximately RMB298.5 million, RMB347.3 million and RMB391.8 million, representing approximately 72.8%, 71.9% and 65.8% of our total revenue, respectively. Our sales in the Guangdong province may be affected by a number of factors and many of which are beyond our control. Examples of such factors include changes in the laws and regulations governing the pharmaceutical industry as promulgated by the national, provincial or local government, changes in local customer preference and spending patterns, natural disasters or any other adverse change in the economic, political or social conditions. If any of these factors occur, our business, financial condition and results of operations could be materially and adversely affected.

Our gross profit margin in the future may be adversely affected if the proportion of the sales of our own-branded products in the PRC market decreases.

During the Track Record Period, our overall gross profit margin increased continuously from 46% to 53.8% as we increased the proportion of sales of our own-branded products, in particular, the modern decoction pieces. For each of the three years ended 31 December 2014, the proportion of sales of our own-branded products accounted for approximately 55.2%, 56.6% and 61.5% of our total revenue, respectively. Our own-branded modern decoction pieces are manufactured by mainly using our patented techniques, which enable us to achieve higher gross profit margins than non-own branded products. For details of the gross profit margin for our products, please refer to the paragraph headed "Financial Information — Cost of sales, gross profit and gross profit margin" in this [REDACTED]. If the proportion of sales of our own-branded products falls due to changes in market demand for our products or if we cannot develop and launch any new product for sale on a timely basis, it is likely that our overall gross profit margin would be adversely affected.

We may not be able to maintain our historical growth rates and our results of operations may fluctuate significantly.

You should not rely on our historical operating results as an indication of our future performance. From 2012 to 2014, our revenue grew from approximately RMB410.1 million to approximately RMB595.6 million, representing a CAGR of 20.5%, and our net profit grew from approximately RMB17.3 million to approximately RMB86.7 million, representing a CAGR of approximately 123.9%. Our operating results may fluctuate significantly as a result of many factors which are outside of our control. These factors include, but not limited to:

- the success of our marketing and brand building efforts;
- the timing and market acceptance of our new products;
- fluctuations in demand for our products as a result of, among others, changes in our or our competitors' pricing policies and our customers' preferences; and
- the amount and timing of capital and other expenditures relating to the maintenance and expansion of our businesses.

These and other factors may slow down our revenue and profit growth, and may also cause significant fluctuation of our operating results.

Any prolonged or significant disruption to our manufacturing operations may materially and adversely affect our business, financial condition and results of operation.

All of our own-branded products are manufactured in our own facilities in Zhongshan. A smooth and uninterrupted manufacturing operation is crucial to our business, which is subject to a number of risks, including but not limited to:

- machinery breakdowns or sub-standard performance of our manufacturing equipment;
- the possibility of accidents which may result in fires, explosions and other potentially dangerous situations;
- the possibility of natural disasters or other unanticipated catastrophic events, including power interruptions, water shortages, storms, fires, earthquakes, terrorist attacks and wars, which may significantly disrupt or even halt our manufacturing capabilities; and
- shortages of skilled personnel to operate our manufacturing equipment and maintain our production processes.

The occurrence of any of the above may severely disrupt our manufacturing operations. Any prolonged or significant disruption to our manufacturing operations may have a material adverse effect on our business, financial condition and results of operation.

If we are unable to develop and introduce new products or gain market acceptance of our new products, our business, financial condition and results of operations may be adversely affected.

For each of the three years ended 31 December 2014, revenue from our own-branded products amounted to approximately RMB226.5 million, RMB273.4 million and RMB366.1 million, representing approximately 55.2%, 56.6% and 61.5% of our total revenue, respectively. In order to sustain our business growth, we have to remain competitive in the pharmaceutical industry by introducing new products to the market.

The success of a new product depends on whether it is well received by the market, which is in turn affected by a number of factors, including our ability to accurately identify changing market demand and consumers' preferences, efficacy, quality and price of the new product, as well as the effectiveness of our marketing and advertising campaigns. In particular, the introduction of new products requires substantial capital and time investment in research and development activities.

There is no assurance that any of our research and development activities will result in the successful development of new products. Furthermore, if any of our new products does not receive positive market response, we will not be able to recover the related costs of such research and development activities, and hence our business, financial condition and results of operation could be adversely affected.

Our status of modern decoction pieces pilot production enterprise may be subject to revocation, termination, suspension or alteration any time by the relevant authorities in the PRC.

In 2011, the GFDA gave consent to Zhongzhi Herb Pieces the status of modern decoction pieces pilot production enterprise* (中藥破壁飲片試點生產企業) to conduct researches on the clinical safety assessment and production quality control on modern decoction pieces. Our Directors believe that this status provides us a competitive edge in that we are the pioneer in the development of the quality standards of modern decoction pieces. However, the consent letter did not set out when the pilot period will be ended. Hence, there is no assurance that such pilot status of Zhongzhi Herb Pieces will not be subject to any possible termination, prohibition, restrictions, limitation or suspension measures imposed by competent authorities in the future. For each of the three years ended 31 December 2014, revenue derived for the sale of our modern decoction pieces accounted for approximately 5.5%, 13.6% and 26.3% of our Group's total revenue, respectively. If our pilot production status is terminated or under any restriction or if other manufacturers are granted with similar pilot production status for the production of other forms of modern decoction pieces, our competitive edge in the pharmaceutical industry will be threatened and our business and operations will be adversely affected.

We rely heavily on our distribution network comprising distributors and independent chain pharmacies for the sales of our own-branded products.

For each of the three years ended 31 December 2014, approximately 42%, 42.9% and 49.5% of our total revenue was generated from the sales to our distributors (including both contractual and non-contractual distributors) as well as independent chain pharmacies. We therefore rely heavily on distributors and independent chain pharmacies for the distribution of our own-branded products. There is no assurance that (i) we will not lose any of our distributors and/or independent chain pharmacies in the future; or (ii) we are able to renew the distribution agreements with our contractual distributors and/or master agreements with independent chain pharmacies on favourable terms or at all; or (iii) our distributors and/or independent chain pharmacies will continue to place orders with us; or (iv) their future orders will remain at a comparable level or on similar terms as in prior years. These events may occur if we fail to maintain good business relationships with them or they switch to purchase similar products from other pharmaceutical companies, which are capable of providing them with more preferential selling terms and arrangements (such as rebates or sales commission). If any of these events occurs or if we are unable to identify and appoint additional or replacement distributors or independent chain pharmacies on a timely basis, our financial condition and results of operation could be adversely affected.

We have limited control over our distributors.

We enter into distribution agreements with our contractual distributors, whereby we can manage their sales of our products, in respect of, *inter alia*, selling price, sales volume and geographical coverage through the terms of distribution agreements.

However, we cannot assure you that these distributors will comply with our contractual terms at all times. If any of them distributes our products outside our designated territories or below our specified minimum sales price, our business, financial condition and results of operations could be adversely affected.

For our non-contractual distributors who are mainly smaller-sized local distributors, we do not enter into distribution agreement with them. As such, we can only rely on a series of measures in managing the performance of these non-contractual distributors, such as tracking where each batch of our products are sold through the product serial numbers labelled thereon. In the event that our products are distributed outside the regions as agreed with us, it may result in potential competition with other non-contractual distributors and our business, financial condition and results of operations could be adversely affected.

If we are unable to procure adequate supply of Chinese herbs for the manufacturing of our own-branded products at acceptable prices and of good quality in a timely manner, our profitability may be negatively affected.

Our pharmaceutical manufacturing business depends on our ability to obtain sufficient quantities of raw materials at acceptable prices and of good quality in a timely manner. Our major raw materials for our pharmaceutical manufacturing are Chinese herbs, which accounted for approximately 10.8%, 13% and 14.5% of the total cost of sales during the Track Record Period respectively. The availability and prices of different kinds of Chinese herbs depend on a number of factors, many of which are beyond our control, such as climate, seasonal factors, general economic conditions, prevailing market demand and supply, and environmental and conservation regulations. We cannot assure you that we will be able to secure sufficient supplies of these Chinese herbs for our production, or that the prices for these raw materials will be reasonable. Our profit margin is, to a certain extent, dependent on our ability to pass the increase in Chinese herbs costs to customers. Any lack of supply or increase in the costs of raw materials, which cannot be fully shifted to our customers would materially and adversely affect our business, financial condition and results of operations.

We may incur significant losses resulting from product liability claims against us.

We are exposed to the risks of product liability claims as a result of producing, marketing, promoting and selling pharmaceutical products in the PRC. Such claims may arise when our products are found to be unsafe, ineffective, defective or our product labelling is improper, insufficient or provides inadequate warnings or insufficient or misleading disclosures of side effects. We do not maintain product liability insurance. Any claims against us or product recalls may cause significant damages to our Group. We may also have to spend significant resources and time to defend ourselves if legal proceedings for product liability are brought against us. In such event, our business reputation, financial condition and results of operations could be adversely affected.

We may not have sufficient protection to our intellectual property rights which may result in a negative impact on our business, financial condition and results of operation.

Our success depends to a large extent on our ability to protect our intellectual property rights, including trademarks, patents, knowhow and design. In this respect, we rely on registration of trademarks, obtaining patents for our proprietary techniques, knowhow and design and contractual provisions to protect our intellectual property rights. We have certain trademarks and patents registered in the PRC, Hong Kong and Macau. For further information of our trademarks and patents, please refer to the paragraph headed "Further Information about our Business — Intellectual property rights" in Appendix V headed "Statutory and General Information" to this [REDACTED].

However, the above measures may not be adequate to protect our intellectual property rights related to our existing business and products as well as those products which are still under development. Firstly, we may not be able to identify any unauthorised use of our patents, trademarks and other intellectual property rights and take appropriate actions to enforce our rights on a timely basis. Secondly, our registered patents or our applications for registration of patents may not adequately describe, enable or otherwise provide coverage of our techniques, samples and products and thus, we may not be able to exclude others from developing or commercialising these techniques, samples and products. Thirdly, our competitors may independently develop proprietary techniques similar to ours, introduce counterfeits of our products, misappropriate our proprietary information or processes or infringe on our patents and trademarks, or produce similar products that do not infringe on our patents or successfully challenge our patents. Counterfeit pharmaceutical products are generally sold at a lower price than authentic pharmaceutical products due to their lower production costs and may cause confusion to our customers because, in most cases, their packaging is generally similar to that of authentic products. Proliferation of counterfeit pharmaceutical products could negatively affect our operating income, brand, reputation, business and results of operations. Furthermore, any misappropriation of our intellectual property rights may impair the pricing of our products and adversely affect our reputation.

On the other hand, infringement of intellectual property rights by legal entities or individuals occurs frequently in the PRC. We cannot assure you that we will be able to continue to prevent or deter infringement or other misappropriation of our intellectual property rights in the future. In the event that any misappropriation or infringement of our intellectual property occurs in the future, we may need to protect our intellectual property or other ownership rights through litigation. The outcome of any litigation is uncertain and may divert our management's attention from our business operations and possibly result in significant legal costs. In addition, infringement of our intellectual property rights may impair the market value and share of our pharmaceutical products, damage our reputation and adversely affect our business, financial condition and results of operations.

Any significant increase in rental and/or our failure to renew the lease agreements of the properties where our chain pharmacies are operated would materially and adversely affect our business and results of operations.

Save for one pharmacy, all our pharmacies are operated in the properties leased by us in Zhongshan, for which we enter into lease agreements with Independent Third Party landlords. The rentals for such properties are generally subject to the then prevailing market conditions in Zhongshan. As at the Latest Practicable Date, there are a total of 28 lease agreements of the properties where our chain pharmacies are operated which would expire by 31 December 2015. We cannot assure you that we will be able to renew these lease agreements on favourable terms or at all, which may require us to pay higher rental costs to maintain our business operations. If we fail to renew these lease agreements at terms acceptable to us, we have to close down the relevant pharmacy and look for properties in the vicinity for relocation. As a result, we have to bear all relocation costs, renovation costs and other expenses incurred. We may also lose the customer base we had built up through these pharmacies.

We may face difficulties when we implement our plan in expanding our chain pharmacy outside Zhongshan.

We have been operating chain pharmacies in Zhongshan since 2001. Going forward, we intend to expand our chain pharmacy into other cities in the Guangdong province.

If we expand our chain pharmacy outside Zhongshan, we may face difficulties posed by the new markets due to differences in consuming power, spending habit of the local people and regulatory environment in the new markets. Hence, we cannot assure you that we will be successful in materialising all the anticipated benefits in the opening of new chain pharmacies.

There is no assurance that those permits or certifications which are necessary for our operation can be successfully renewed.

We have obtained all relevant permits, licences and GMP certifications required for our pharmaceutical manufacturing. We have also obtained all relevant permits, licences and GSP certifications for the operation of our chain pharmacies business. These permits and licences held by us are generally valid for a maximum period of five years and are subject to periodic renewal and/or reassessment by the relevant PRC governmental authorities. We intend to apply for the renewal of these permits, licences and certifications when required by applicable laws, rules and regulations. However, the standards of such renewal or reassessment may change from time to time. There is no assurance that we will be able to successfully renew all of these permits, licences and certifications upon their expiry in the future. Any inability to renew any permits, licences or certifications that are material to our operations may severely disrupt, as well as prevent us from conducting, our business. Furthermore, if any interpretation or implementation of the relevant regulations or new regulations requires us to obtain additional permits, licences or certifications, there is no assurance that we will successfully obtain them in the future. Even if we obtain such permits, licences or certifications, there may be significant additional costs and expenses involved, which may materially and adversely affect our financial condition and results of operation.

Moreover, we are subject to regular inspections, examinations, inquiries and audits by the regulatory authorities as part of the process of maintaining or renewing the various permits, licences and certifications required for the sale and manufacturing of pharmaceutical products. In the event that any of our products or facilities fail such inspections, our reputation, business, financial condition and results of operation may be materially and adversely affected.

Failure to comply with the relevant quality and safety standards of the PRC could lead to fines, law suits or other penalties that may adversely affect our operations.

Ensuring the quality of pharmaceutical products manufactured or sold in the PRC is a principal objective of the relevant PRC laws and regulations in this respect, and the pharmaceutical products are subject to strict product quality control. In recent years, the PRC government has been enhancing its supervision on quality and safety standards in the pharmaceutical industry. Our operations are also subject to safety standards and routine compliance checks by the relevant PRC authorities. If the PRC authorities determine that our products do not meet the national and/or provincial standards or fail to comply with relevant laws and regulations, we could be subject to significant fines or be required to invest additional capital in carrying out necessary improvements to meet such standards, which could have a material adverse effect on our cash flow and our ability to fund and expand our business.

Pursuant to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), the Product Quality Law of the PRC (《中華人民共和國產品質量法》), and the Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》), and other relevant laws and regulations, should our own-branded products lead to any injury, death or property damage due to product defects, we may be subject to fines, suspension of operations, revocation of our business licences and GMP certificates, or in extreme situations, criminal liability, which could have a material adverse effect on our reputation and brand value, and in turn materially and adversely affect our business, financial condition and results of operations. For details of the relevant laws and regulations governing our business, please refer to the "Regulation" section in this [REDACTED].

For the non-own branded products we sourced from other parties, should such products lead to any injury, death or property damage due to product defects, we may be subject to, among others, compensation claims from consumers. Though we require the suppliers of our chain pharmacies (including manufacturers and distributors of the non-own branded products) to enter into quality assurance agreements with us before we purchase from them, we cannot assure you that we can claim full reimbursement or recover all losses and damages from our suppliers or manufacturers, which in turn would materially and adversely affect our business, financial condition and results of operations.

We may not be able to enjoy the various benefits including preferential income tax treatment associated with the accreditation as a High and New Technology Enterprise* (高新技術企業).

Each of Zhongzhi Herb Pieces and Honeson Pharmaceutical was accredited as a High and New Technology Enterprise since 2003 and 2008, respectively. These accreditations are subject to review and approval by the tax authorities every three years. Under the EIT Law and its relevant regulations, High and New Technology Enterprise is conferred with a preferential income tax rate of 15% (reduced from the unified enterprise income tax rate of 25% under the EIT Law). The current status of Zhongzhi Herb Pieces and Honeson Pharmaceutical as High and New Technology Enterprise and their entitlement to the reduced EIT rate will expire in 2017. There is no assurance that we can obtain approval from the local tax authority to renew our High and New Technology Enterprise status or the PRC policies on preferential tax treatments will not change. If we lose such status or such change occurs, the resulting increase in our tax liability would have an adverse effect on our net profits and cash flow. For the impact of the increase in the EIT rate on our results of operations, please refer to the sensitivity analysis of EIT rate in the paragraph headed "Financial Information — Principal factors affecting our results of operations — Taxation" in this [REDACTED].

Government grants from the relevant government authorities could be reduced or discontinued.

As a reputable pharmaceutical company in Zhongshan, we have been receiving government grants from the Guangdong provincial government and Zhongshan municipal government for our continuous effort in research and development of pharmaceutical products as well as the expansion of our business operations. As at each of the three years ended 31 December 2014, government grants of approximately RMB8.6 million, RMB11.4 million and RMB15.1 million were recognised as deferred income, respectively. For each of the respective periods, we recognised government grants of approximately RMB6 million, RMB3 million and RMB4.1 million as other income in the combined statements of profit or loss, respectively.

These government grants are of discretionary nature, and hence they are not predictable and may fluctuate from year to year. In addition, if the relevant government authorities deduct or even cancel the government grants currently available to us or refuse to give any government grants for our future projects, our results of operation could be adversely affected.

Our information system may experience failure or breakdown and cause interruptions to our business.

We use our information system to monitor the daily operations of our pharmaceutical manufacturing business and chain pharmacies operations. This information system records various operational data, including but not limited to sales information, payment records as well as inventory records, which allows us to analyse our business performance, and make timely business and financial decisions. Any system setback or failure, or other damage from unforeseen events, which causes delays or interruptions to the input, retrieval and transmission of data, could disrupt our operations. We cannot assure you that our information system recovery plan can effectively resolve all system failures, or that we will be able to restore our operational capacity in a timely manner to avoid disrupting our business. In addition, if the capacity of our information system fails to meet the increasing needs of our expanding operations, our ability to expand may be constrained. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to additional social insurance fund and housing provident fund contributions and late payments and fines imposed by relevant governmental authorities.

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例), we are required to make social insurance fund contributions and housing provident fund contributions for our employees.

Due to administrative oversight, our PRC subsidiaries (namely, Zhongzhi Pharmaceutical, Zhongzhi Chain Pharmacies, Zhongzhi Herb Pieces and Honeson Pharmaceutical) did not make adequate contributions to the social insurance fund and housing provident fund for our employees during the Track Record Period.

For each of the three years ended 31 December 2014, we have made provision in the sum of approximately RMB1.9 million, RMB1.9 million and RMB0.5 million for the underpaid social insurance fund contribution and housing provident fund contributions, respectively. However, the relevant authorities may impose fines on us for not paying the social insurance amount according to applicable PRC laws and regulation. For further details, please refer to the paragraph headed "Business — Legal proceedings and non-compliance" in this [REDACTED].

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

Our operations are subject to hazards and risks which may cause significant harm to persons or damage to properties. We maintain different types of insurance policies, including social security insurance for all of our employees, product delivery insurance, vehicle insurance and personal accident insurance. However, there is no assurance that our insurance policies will be adequate to cover all losses incurred.

Furthermore, we have not purchased any insurance to cover risks relating to the Contractual Arrangements as such coverage is generally not readily obtainable from insurance providers. There is no assurance that we will be able to continue to operate our Contractual Arrangements, and if such risk materialises, we may suffer substantial losses for which we do not have insurance coverage.

Losses incurred and associated liabilities may have a material adverse effect on our results of operation if such losses or liabilities are not covered by our insurance policies.

We rely on the experience of our management team and our business may be severely disrupted if we lose their services.

Our Group's success has been, and will be, dependent on the continuing service of our management team as well as our ability to attract, motivate and retain such key personnel. Our Board is led by Mr. Lai, our chairman and executive Director, who has over 30 years of experience in the pharmaceutical industry and is responsible for formulation of the overall business strategy and direction of our Group. All members of our senior management team had played a significant role in the business operations of our Group during the Track Record Period and will continue to play a pivotal role in the future growth and success of our business. Further information about our management skills and experience of our Directors and our senior management is set out in the "Directors and Senior Management" section in this [REDACTED].

There is no assurance that our Directors and our senior management will continue to perform as well as they did so in the past, or we will be able to retain their services when their contracts expire. If any of our Directors or members of our senior management team is unable or is unwilling to continue to serve his/her current position and we may not be able to recruit suitable replacement personnel with similar qualifications or talents in a timely manner, it may cause disruption to our business operation and may have an adverse impact on our ability to manage our business effectively and efficiently. As a result, our profitability and results of operations may be adversely affected.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies.

Under current PRC laws and regulations, foreign ownership in PRC entity engaged in the production of decoction pieces business is prohibited. As our Company is a Cayman Islands incorporated company, it is classified as a foreign enterprise under the PRC laws and regulations. Accordingly, our subsidiaries in the PRC are unable to obtain the necessary licences to engage in the production of decoction pieces in the PRC. To comply with PRC laws and regulations, our Group conducts its production of decoction pieces in the PRC through the Contractual Arrangements. For details, please refer to the "Contractual Arrangements" section in this [REDACTED].

We have been advised by our PRC Legal Advisors that as at the Latest Practicable Date, each of the Contractual Arrangements is legal, valid and binding on the parties thereto, and there is no relevant laws or regulations specifically disallow foreign investors from using any agreements or contractual arrangements to gain control of or operate a foreign prohibited business such as the production of decoction pieces. However, the PRC government may determine that these contractual arrangements are not in compliance with the licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future, or that the Contractual Arrangements may be effectively enforced without limitation. We cannot rule out the possibility that the PRC government may restrict or impose additional requirements regarding overseas listing of PRC companies engaging in decoction pieces production by way of contractual arrangements in the future.

If the Contractual Arrangements are adjudicated to be in violation of any applicable PRC laws, rules or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including revoking the business and operating licences of Zhongzhi Herb Pieces, imposing economic penalties, imposing conditions or requirements with which our Group may not be able to comply, requiring our Group to restructure the relevant ownership structure or operations, taking other regulatory or enforcement actions that could adversely affect the business of our Group. Any of these actions could have a material adverse impact on our Group's business, prospect, financial condition and results of operation.

Uncertainties of the interpretation under the Draft Foreign Investment Law and the Explanatory Notes, which had been released for consultation purpose, may result in our Contractual Arrangements becoming invalid and illegal.

The Draft Foreign Investment Law introduced the concept of "actual control" on a PRC domestic enterprise whereby a domestic enterprise if, actually controlled by a "foreign investor" through contractual arrangements, shall be regarded as a "foreign-invested enterprise" and such foreign-invested enterprise is restricted or prohibited from investment in certain industries listed on the Negative List unless permission from the competent authority in the PRC is obtained.

Whilst the Draft Foreign Investment Law had been released for consultation purpose, the interpretation of which and its Explanatory Notes is still uncertain. We cannot assure that under the Draft Foreign Investment Law, the status of Zhongzhi Herb Pieces would be interpreted as a domestic enterprise by reason that it is actually controlled by Mr. Lai, a Chinese national, who is both the legal representative of Zhongzhi Herb Pieces and the Controlling Shareholder as well as an executive Director. Furthermore, the issues as to the level of "actual control" for being qualified as a domestic enterprise, how existing domestic enterprises which are operated by foreign investors under the contractual arrangements are to be handled and what business will be respectively classified as "restricted business" or "prohibited business" in the Negative List, are yet to be clarified at this stage.

Hence, if the Draft Foreign Investment Law is to be interpreted in the most stringent way to the effect that Zhongzhi Herb Pieces is not regarded as a domestic enterprise; and the production of decoction pieces falls into the scope of foreign prohibited business on the Negative List, our Contractual Arrangements will be regarded as invalid and illegal. As a result, our Group would not be able to manufacture decoction pieces through the Contractual Arrangements with Zhongzhi Herb Pieces. For details of the Draft Foreign Investment Law and the Negative List and its potential impact on our Company, please refer to the paragraph headed "Contractual Arrangements — Legality of the Contractual Arrangements — The Draft Foreign Investment Law and the Explanatory Notes" in this [REDACTED].

Certain terms of the Contractual Arrangements may not be enforceable under the PRC laws.

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision pursuant to which all disputes arising from the Contractual Arrangements shall be resolved by arbitration and the arbitral body may award remedies over the equity interests or land or other assets of Zhongzhi Herb Pieces, make injunctive relief or order the winding up of Zhongzhi Herb Pieces. However, as advised by our PRC Legal Advisors, the arbitral body may not be able to make injunctive relief or winding up orders according to the PRC laws and arbitration rules. If Zhongzhi Pharmaceutical cannot be awarded injunctive relief or winding up order, the interest of Zhongzhi Pharmaceutical in Zhongzhi Herb Pieces will be adversely affected.

Our Group relies on the Contractual Arrangements for the production of decoction pieces in China, which may not be as effective in providing operational control as direct ownership.

To comply with PRC laws and regulations on decoction pieces production, our Group is engaged in the production of decoction pieces in the PRC through the Contractual Arrangements. The Contractual Arrangements may not be as effective in providing our Group with control over Zhongzhi Herb Pieces as direct ownership. If we had equity ownership of Zhongzhi Herb Pieces, we would be able to exercise our rights as a direct or indirect shareholder to effect changes in the board of directors of Zhongzhi Herb Pieces, which in turn could effect changes, subject to any fiduciary obligations, at the management level. However, if Zhongzhi Herb Pieces fails to perform its obligations under the Contractual Arrangements, we cannot exercise shareholders' rights to direct corporate actions as the direct ownership would otherwise entail. If the parties under the Contractual Arrangements refuse to carry out our directions in relation to everyday business operations, we will be unable to maintain effective control over the manufacturing of decoction pieces in the PRC. If we were to lose effective control over Zhongzhi Herb Pieces, certain negative consequences would result, including our being unable to control the quality of the decoction pieces to be manufactured by using our patented techniques and to consolidate the financial results of Zhongzhi Herb Pieces with our financial results. Given that revenue from our decoction pieces accounted for approximately 14.6%, 21.9% and 32.9% of our Group's total revenue for each of the three years ended 31 December 2014, respectively, our financial position would be materially and adversely impacted if we were to lose effective control over Zhongzhi Herb Pieces.

The Registered Shareholders may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Our control over Zhongzhi Herb Pieces is based upon the Contractual Arrangements with Zhongzhi Herb Pieces and the Registered Shareholders that allow us to control Zhongzhi Herb Pieces. The Registered Shareholders are also shareholders of our Company, but the equity interests held by each of the Registered Shareholders in our Company are less than their equity interests in Zhongzhi Herb Pieces, as there are additional investors of our Company. In addition, the equity interests of the Registered Shareholders in our Company will be further diluted as a result of the [REDACTED] as well as future offerings, if any, of our Company's equity securities. Therefore, the Registered Shareholders may potentially have conflicts of interest with us, and they may breach their contracts with us, if they believe it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and Zhongzhi Herb Pieces, the Registered Shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favour.

We have some existing protections over potential conflicts of interest between these individuals and our Company. Pursuant to the Call Option Agreement entered into on 31 August 2014, the Registered Shareholders granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their equity interests in Zhongzhi Herb Pieces. On the same day, each Registered Shareholder has executed the Power of Attorney to appoint Zhongzhi Pharmaceutical as his/its attorney to exercise their shareholders' rights in Zhongzhi Herb Pieces.

We cannot assure you, however, that when conflicts of interest arise, the Registered Shareholders will act in the best interests of our Company or that conflicts of interest will be resolved in our favour. In the event of any such conflicts of interest, the Registered Shareholders may breach or cause Zhongzhi Herb Pieces to breach or refuse to renew the Contractual Arrangements that allow us to effectively control and receive all economic benefits from Zhongzhi Herb Pieces. If we cannot resolve any conflict of interest or dispute between us and the Registered Shareholders should it arise, we would have to rely on legal proceedings, which could result in disruption to our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the Contractual Arrangements. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation.

Our exercise of the option to acquire equity interests of Zhongzhi Herb Pieces may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

Pursuant to the Contractual Arrangements, the Registered Shareholders, have jointly and severally, granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical, to purchase all or part of their equity interests in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price, and to the extent permitted by the applicable PRC laws and regulations. If Zhongzhi Pharmaceutical cannot legally own all or part of the shares of Zhongzhi Herb Pieces due to any reason, we may not be able to exercise the option to acquire the equity interests of Zhongzhi Herb Pieces.

As advised by our PRC Legal Advisors, the Contractual Arrangements are governed by PRC law. Accordingly, the Contractual Arrangements would be interpreted in accordance with PRC law and any disputes would be finally resolved by arbitration. If Zhongzhi Herb Pieces or any of the Registered Shareholders fails to perform his/its obligations under the Contractual Arrangements, our Group may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which may not be effective. Uncertainties in the PRC legal system could limit the ability of our Group to enforce the Contractual Arrangements. Any inability to enforce the Contractual Arrangements or limitation thereon could disrupt the business of our Group and have a material adverse impact on our Group's business, prospects and results of operation.

RISKS RELATING TO THE PHARMACEUTICAL INDUSTRY

The pharmaceutical industry is highly fragmented and competitive.

The pharmaceutical industry in the PRC is highly fragmented and competitive. Our key competitors include national and regional manufacturers of pharmaceutical products and pharmacy chains. We cannot assure that we will be able to remain competitive by continually distinguishing our products and services, or maintain our supplier and customer relationships, nor can we assure you that we will be able to increase or maintain our existing market share. Competition is likely to intensify if (i) the number of competitors of similar products or suitable substitutes increases due to the increase in market demand; or (ii) competitors drastically reduce prices due to the oversupply of products or in response to competition.

We expect to continue to face a highly competitive market environment. If we fail to react to the rapidly changing market conditions, control procurement costs or mismanage our business operation, our business, financial condition and results of operations could be materially and adversely affected.

The pharmaceutical industry is highly regulated and the regulatory framework, requirements and enforcement trends may change from time to time.

The pharmaceutical industry in the PRC is subject to extensive government regulations and supervision. We are governed by various local, regional and national regulatory regimes in all aspects of our operations. We cannot assure you that the legal framework, licensing and certification requirements and enforcement trends in the pharmaceutical industry will not change in the future, or that we will be able to respond to such changes. Such changes may result in the increase in the costs of compliance and operational delays in bringing non-compliance into compliance, which would adversely affect our business, financial condition and results of operations.

As advised by our PRC Legal Advisors, there are currently no specific regulations governing the development and production of modern decoction pieces. Our modern decoction pieces follow the same PRC production regulations in terms of licensing and quality and standards as set out in the Chinese Pharmacopoeia or Drug Standards for traditional decoction pieces. If there are any changes in, or any promulgation of, laws, regulations or standards for traditional decoction pieces or particularly for modern decoction pieces, it may result in the increase in the costs of compliance. If we cannot change our production specifications and/or quality control system for the compliance of any new regulations and/or standards in a timely basis, our business, financial condition and results of operations will be adversely affected.

The lifting of price controls on most pharmaceutical products by the PRC government with effect from 1 June 2015 may expose the sale of certain of our own-branded Chinese patent medicines to increasing competitions amongst other pharmaceutical manufacturers in the PRC.

Following the lifting of price controls on all pharmaceutical drugs (except for anesthetic and some types of psychiatric drugs) with effect from 1 June 2015, which is purported to improve the purchasing mechanism of pharmaceutical products in the PRC and allow their selling prices to be determined by the market, all our pharmaceutical products will no longer be subject to any government price controls. We, like other pharmaceutical manufacturers in the PRC, are therefore free to set the pricing of our pharmaceutical products with reference to our cost and the prevailing market conditions.

Our Directors envisage that most pharmaceutical manufacturers may commence the production and sale of those popular or essential pharmaceutical products, which were used to be subject to price controls and of lower profit margin, upon the lifting of the price controls over these products. Hence, we may face increasing competition from these pharmaceutical manufacturers in respect of our Chinese patent medicines which were previously subject to price control. The lifting of government price controls on pharmaceutical products may also lead to more supplies of pharmaceutical products in the market. As such, if our own-branded Chinese patent medicines are not competitive enough in terms of pricing and/or quality in the market, revenue to be generated from the sale of our Chinese patent medicines may be adversely affected.

Failure to comply with anti-bribery and anti-corruption laws and regulations could adversely affect our reputation, results of operations and business prospects.

We are subject to PRC laws and regulations relating to anti-bribery and anti-corruption. These laws and regulations prohibit companies and their intermediaries from making improper payments to other parties for the purpose of obtaining or retaining business. We established anti-bribery and anti-corruption systems and work ethics standards applicable across our Group as part of our risk management and internal control measures. For further details, please refer to the paragraph headed "Business — Employees — Anti-corruption and anti-bribery policies". While we have internal controls and procedures in place to monitor strict compliance with these laws and regulations, we cannot assure you that such internal controls and procedures are sufficient to protect us from violations, if any, committed by our employees or other parties with whom we have a business relationship. If our employees or other parties are found or alleged to be in violation of anti-bribery and anti-corruption regulations, we may face or be involved in fines, lawsuits, loss of permits and licences, closure of pharmacies, and loss of key personnel, as well as damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

Our business operations may be adversely affected by present or future environmental regulations or enforcement.

Since the beginning of the 1980s, the PRC has formulated and implemented a series of environmental protection laws and regulations. Our operations are subject to these environmental protection laws and regulations in the PRC. These laws and regulations impose fees for the discharge of waste substances, permit the levy of fines and claims for damages for serious environmental offences and allow the PRC government, at its discretion, to close any facility that fails to comply with orders requiring it to correct or stop operations causing environmental damage. Our operations are in compliance with PRC environmental regulations in all material aspects. The PRC government has taken steps and may take additional steps towards more rigorous enforcement of applicable environmental laws, and towards the adoption of more stringent environmental standards. If the PRC national or local authorities enact additional regulations or enforce current or new regulations in a more rigorous manner, we may be required to make additional expenditures on environmental matters, which could have an adverse impact on our financial condition and results of operations. In addition, environmental liability insurance is not common in China. Therefore, any significant environmental liability claims successfully brought against us would adversely affect our business, financial condition and results of operations.

RISKS RELATING TO THE PRC

Uncertainties with respect to the PRC legal system could have a material adverse effect on our business and operations.

Our business is conducted, and our operations are located, in the PRC. Our business in the PRC is subject to PRC laws and regulations applicable to foreign investment in the PRC. The PRC legal system is a civil law system based on written statutes. Unlike the common law system, prior cases have limited precedential value in deciding subsequent cases in the civil law legal system. Additionally, PRC written statutes are often principle oriented and require detailed interpretations by the enforcement bodies for their application and enforcement. When the PRC government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate business practices and the overall economic order of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving foreign investment, corporate organisation and governance, commercial transactions, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have a material adverse effect on our business and operations. Additionally, given the involvement of different enforcement bodies of the relevant rules and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of PRC laws and regulations may involve significant uncertainties under the current legal environment.

Changes in economic, political, legal and social developments and conditions in the PRC and policies adopted by the PRC government may adversely affect our business, financial condition and results of operation.

All of our operating assets are located in the PRC and all of our sales are derived from our operations in the PRC. Our business, financial condition and results of operation are subject, to a significant degree, to economic, political, legal and social developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange. The PRC economy has traditionally been centrally planned. Since 1978, the PRC government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. We believe that we have benefited from the economic reforms implemented by the PRC government and its economic policies and measures. However, there is no assurance that the PRC government will continue to pursue economic reforms. The PRC government exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. In addition, while the PRC's economy has experienced significant growth in the last three decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business, financial condition and results of operation may be materially and adversely affected by the PRC government's political, economic and social policies, tax regulations or policies, and regulations affecting the pharmaceutical industry.

The outbreak of any severe contagious disease in the PRC, if uncontrolled, may materially and adversely affect our financial condition, results of operations and future growth.

Any future outbreaks of severe contagious diseases in the PRC, including avian influenza, atypical pneumonia or Ebola virus disease, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, on the overall GDP growth of the PRC. As a substantial portion of our revenue is derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect our financial condition, results of operations and future growth. The spread of any severe contagious disease in the PRC may also affect the operations of our distributors and suppliers, which, again, may have a potentially adverse effect on our financial condition and results of operations.

Our Company is a holding company and our ability to pay dividends is dependent upon the earnings of, and distributions by, our subsidiaries in the PRC.

Our Company is a holding company incorporated under the laws of Cayman Islands with limited liability. All of our business operations are conducted through our subsidiaries in the PRC. Our Company's ability to pay dividends to our Shareholders is dependent upon the earnings of our subsidiaries in the PRC and their distribution of funds to our Company, primarily in the form of dividends. The ability of the subsidiaries in the PRC to make distributions to our Company depends upon, among others, their distributable earnings. Under the PRC laws, payment of dividends is only permitted out of accumulated profits according to PRC accounting standards and regulations, and subsidiaries in the PRC are also required to set aside part of their after-tax profits to fund certain reserve funds that are not distributable as cash dividends. Other factors such as cash flow conditions, restrictions on distributions contained in the PRC subsidiaries' articles of associations, restrictions contained in any debt instruments, withholding tax and other arrangements will also affect the ability of our subsidiaries in the PRC to make distributions to our Company. These restrictions could reduce the amount of distributions that our Company receives from its subsidiaries in the PRC, which in turn would restrict our ability to pay dividends on our Shares.

Changes in the PRC tax policies could lead to an increase in our tax liabilities.

Pursuant to the EIT Law, a uniform tax rate of 25% is adopted for all enterprises, including foreign-invested enterprises, and revokes many of the previous tax exemptions, reductions and preferential treatments which were applicable to foreign-invested enterprises.

Under the EIT Law, if an enterprise incorporated outside the PRC has its "de facto management organisation" located within the PRC, the enterprise may be recognised as a PRC resident enterprise and thus may be subject to EIT at the rate of 25% on its worldwide income. The term "de facto management organisation" refers to an entity exercising overall management and control over issues such as operations, personnel, finance and assets. Essentially all of our management team members are residing in the PRC. If most of them continue to reside in the PRC, we cannot assure you that our offshore companies will not be deemed as PRC resident enterprises under the Income Tax Law and therefore be subject to EIT at a rate of 25% on our worldwide income (including dividend income receivable from their subsidiaries), which excludes the dividends received directly from another PRC resident enterprise, and our distributable profits may be adversely affected. An increase in our effective income tax rate or a finding that subjects us to PRC enterprise income tax may adversely affect our business, financial condition and results of operations.

In addition, under the EIT Law, PRC withholding income tax at the rate of 10% is applicable to dividends for earnings accumulated since 1 January 2008 payable by a PRC resident enterprise to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent that such dividends have their sources within the PRC, unless it is entitled to reduction or elimination of such tax, such as by tax treaties or agreements. According to the Agreement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income, dividends paid by a foreign-invested enterprise to its shareholders in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interest in the PRC enterprise. If our offshore companies are deemed PRC resident enterprises, it is unclear whether the dividends we pay with respect to the Shares may be treated as income derived from sources within the PRC and be subject to PRC taxes. If we are required under the EIT Law to withhold PRC income taxes on our dividends payable to our foreign shareholders, the value of your investment in the Shares may be materially and adversely affected.

Holders of our Shares may be subject to taxation in the PRC.

Under the current PRC tax laws, regulations and rulings, the dividends we pay to holders of our Shares, who are either individual non-residents of the PRC or foreign enterprises with no permanent establishments in the PRC, are not currently subject to PRC income tax. Additionally, gains currently realised by holders of our Shares from the sale or other disposition of our Shares are not subject to PRC income tax. This treatment could change at any time. If such exemption is revoked and other rates specified in the applicable PRC laws do not apply, holders of our Shares could become subject to the PRC income tax, currently imposed at the rate of 20%, unless reduced or eliminated by an applicable double taxation treaty.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using proceeds we receive from the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries.

As an offshore holding company of our PRC subsidiaries, our Company may make loans to our PRC subsidiaries, or our Company may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to the PRC regulations and foreign exchange loan registrations. For example, loans by our Company to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be approved by the Ministry of Commerce of the PRC or its local counterpart. There is no assurance that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by our Company to finance our PRC subsidiaries. If we fail to receive relevant registrations or approvals, our ability to use the proceeds of the [REDACTED] and to capitalise our PRC operations may be negatively affected. This may materially and adversely affect our liquidity and our ability to expand our business.

It may be difficult to effect service of process upon us or our Directors or executive officers who reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts.

Our Company was incorporated in the Cayman Islands. A majority of our Directors reside in the PRC from time to time. Almost all of our assets, and some of the assets of our Directors are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the "**Arrangement**"). Pursuant to this Arrangement, a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case, according to a choice of court agreement in writing, may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case, pursuant to a choice of court agreement in writing, may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, or most other western countries or Japan. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

RISKS RELATING TO THE [REDACTED]

There has been no prior public market in Hong Kong for our Shares and the liquidity, market price and trading volume may be volatile.

Prior to the [REDACTED], there is no public market for the Shares. The [REDACTED], and the permission to deal in, the Shares on the [REDACTED] do not guarantee the development of an active public market or the sustainability thereof following completion of the [REDACTED]. Factors such as variations in our Group's revenues, earnings, cash flows, new investments, acquisitions or alliances, regulatory developments, additions or departures of key personnel, actions taken by competitors or any other developments of our Group could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the [REDACTED].

Future sales of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares.

Sales of substantial amounts of Shares in the public market after the completion of the [REDACTED], or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Our Shares held by certain Controlling Shareholders are subject to certain lock-up periods, the details of which are set out in the "Underwriting" section in this [REDACTED]. However, there is no assurance that these Shareholders will not dispose of any Shares after the lock-up period restrictions expire.

Prior dividend distributions are not an indication of our future dividend policy and we may not be able to pay any dividends on our Shares.

During the Track Record Period, we have declared dividends of approximately nil, nil and RMB96 million, respectively. All the dividends declared during the Track Record Period had been fully settled as at the Latest Practicable Date. Our Directors may declare dividends after taking into account, among others, our results of operations, financial condition and position, the amount of distributable profits, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. For further details of our dividend policy, please refer to the paragraph headed "Financial Information — Dividend policy" in this [REDACTED]. We cannot assure when or whether we will pay dividends in the future.

Future financing may cause a dilution in your shareholding or place restrictions on our operations.

We believe that our current cash and cash equivalents, anticipated cash flows from operations and the proceeds from the [REDACTED] will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changing business conditions or other future developments relating to our existing operations, acquisitions or strategic alliances. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

RISKS RELATING TO THIS [REDACTED]

Certain facts, forecasts and other statistics with respect to the PRC, the PRC economy and the PRC pharmaceutical industry contained in this [REDACTED] have not been independently verified.

Facts, forecasts and other statistics in this [REDACTED] relating to the PRC, the PRC economy and the PRC pharmaceutical industry have been derived from various official government and/or other research agency sources. Such information has not been prepared or independently verified by us, the Sole Sponsor, or any of our or their respective affiliates, directors or advisors and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics contained in such publications. In all cases, investors should give consideration as to how much weight or importance they should attach or place on such facts, forecasts or statistics.

Forward-looking information included in this document may not be accurate.

This document contains certain statements that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "expect", "may", "'ought to", "should" and "will". These statements include, among others, the discussion of our business strategy and the expectations of our future operations, liquidity and capital resources. Subscribers of our Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. You should not place undue reliance on such forward looking information.

Investors should read the entire [REDACTED] carefully and we strongly caution the investors not to place any reliance on any information contained in press articles or other media regarding us and the [REDACTED], including, in particular, any projections, valuations or other forward-looking information.

Prior to the publication of this [REDACTED], there may be press and media coverage regarding us and the [REDACTED]. We have not authorised the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about ourselves or the [REDACTED], or of any assumptions underlying such projections, valuations or other forward-looking information included in or referred to by the press articles or other media. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this [REDACTED] only and not to rely on any other information.