YiChang HEC ChangJiang Pharmaceutical Co., Ltd.
宜昌東陽光長江藥業股份有限公司

(A joint stock limited company incorporated in the People's Republic of China)

Stock Code : 1558

GLOBAL OFFERING

Sole Sponsor

CICC 中金香港证券

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

CICC 中金香港证券　ICBC 工银国际　招銀国际 CMB INTERNATIONAL

Joint Bookrunners and Joint Lead Managers

農銀國際 ABC INTERNATIONAL　建银国际 CCB International　NOMURA

IMPORTANT: If you are in doubt about any of the contents of this prospectus, you should seek independent professional advice.

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GLOBAL OFFERING

Number of Offer Shares in the Global Offering	**:**	**90,132,000 H Shares (subject to the Over-allotment Option)**
Number of International Offer Shares	**:**	**81,118,800 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	**:**	**9,013,200 H Shares (subject to adjustment)**
Maximum offer price	**:**	**HK$18.50 per Offer Share, plus 1% brokerage, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	**:**	**RMB1.00 per H Share**
Stock Code	**:**	**1558**

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VII, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

We are incorporated, and most of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong, and the fact that there are different risks relating to investment in PRC incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set forth in "Risk Factors", "Appendix IV – Summary of Principal Legal and Regulatory Provisions" and "Appendix V – Summary of the Articles of Association".

The Offer Price is expected to be determined by agreement between the Representative (on behalf of the Underwriters) and the Company on or around Friday, 18 December 2015 and, in any event, not later than Monday, 28 December 2015. The Offer Price will be not more than HK$18.50 per Offer Share and is currently expected to be not less than HK$13.70 per Offer Share, unless otherwise announced. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK$18.50 per Offer Share, unless otherwise announced, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than the price per Offer Share payable on application.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Representative (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting".

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

15 December 2015

Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[2] . . . . . 11:30 a.m. on Friday, 18 December 2015

Application lists open[3] . . . . . 11:45 a.m. on Friday, 18 December 2015

Latest time to lodge **WHITE** and **YELLOW** application forms . . . . . 12:00 noon on Friday, 18 December 2015

Latest time to give **electronic application instructions** to HKSCC[4] . . . . . 12:00 noon on Friday, 18 December 2015

Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . . 12:00 noon on Friday, 18 December 2015

Application lists close . . . . . 12:00 noon on Friday, 18 December 2015

Expected Price Determination Date . . . . . Friday, 18 December 2015

Announcement of:

(1) Announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the basis of allocations of the Hong Kong Offer Shares to be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on . . . . . Monday, 28 December 2015

(2) results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers where appropriate) to be available through a variety of channels (see paragraph headed "Publication of Results" in the section headed "How to Apply for Hong Kong Offer Shares") from . . . . . Monday, 28 December 2015

Announcement containing (1) and (2) above to be published on the websites of the Company and the Stock Exchange at **www.hec-changjiang.com**[5] and **www.hkexnews.hk** from . . . . . Monday, 28 December 2015

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function . . . . . Monday, 28 December 2015

Despatch of share certificates and refund cheques (if applicable) on[6] . . . . . Monday, 28 December 2015

White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful application to be dispatched on[7][8][9] . . . . . Monday, 28 December 2015

Dealings in H Shares on the Stock Exchange expected to commence on . . . . . Tuesday, 29 December 2015

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(1) All times refer to Hong Kong local time, except as otherwise stated. For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, see "Structure of the Global Offering".

(2) You will not be permitted to submit your application under the **White Form eIPO** service through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications.

(3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Friday,18 December 2015, the application lists will not open on that day. See the section headed "How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares – Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.

(5) None of the website or any of the information contained on the website forms part of this prospectus.

(6) The share certificates will only become valid at 8:00 a.m. on the Listing Date, which is expected to be Tuesday, 29 December 2015, provided that the Global Offering has become unconditional in all respects at or before that time. Investors who trade H Shares on the basis of publicly available allocation details or prior to the receipt of the share certificates or prior to the share certificates becoming valid do so entirely at their own risk.

(7) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all required information in their Application Forms may collect refund cheques (where applicable) and H Share certificates (where applicable) from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 28 December 2015. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives each bearing a letter of authorization from his corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected refund cheques and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. For details of the arrangements, see "How to Apply for Hong Kong Offer Shares".

(8) Applicants who apply through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to their application payment bank account, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions to the **White Form eIPO** Service Provider, in the form of refund cheques, by ordinary post at their own risk.

(9) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

The above expected timetable is a summary only. See "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

CONTENTS

This prospectus is issued by the Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong, and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering.

CONTENTS

This summary is intended to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a PRC pharmaceutical manufacturing company that focuses on the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases. According to PICO, in 2012, 2013 and 2014: (i) the anti-influenza virus product market accounted for 0.3%, 0.3% and 0.3% of the PRC pharmaceutical end market, respectively; (ii) the market share of Kewei (our anti-influenza virus product) accounted for 0.5%, 3.8% and 8.2% of the anti-influenza virus product market in the PRC, respectively; (iii) oseltamivir phosphate products accounted for 2.8%, 5.4% and 9.8% of the anti-influenza virus product market in the PRC, respectively; and (iv) our Kewei products accounted for 17.9%, 71.9% and 84.1% of the oseltamivir phosphate products market in the PRC, respectively.

According to PICO, we were ranked amongst the top 4 pharmaceutical manufacturing companies in 2014 in the anti-influenza virus product market in the PRC in terms of sales revenue, and we were ranked No. 1 in the oseltamivir phosphate product category in the PRC in terms of sales revenue in each of 2013 and 2014. Going forward, we intend not only to continue to maintain our strength in the anti-influenza virus therapeutic area but also to expand our product portfolio to cover other therapeutic areas which we believe have substantial growth potential, including digestive diseases.

OUR BUSINESS MODEL

Our Key Therapeutic Areas and Current Products

We currently manufacture, market and sell a total of 33 pharmaceutical products in the PRC. We also manufacture 11 types of APIs, most of which are manufactured for self-use. Currently, our three key therapeutic areas are: anti-virus, endocrine and metabolic diseases and cardiovascular diseases.

In relation to our anti-virus therapeutic area, in particular, our anti-influenza virus therapeutic area, we have Kewei (oseltamivir phosphate) products in capsule and granules form. Kewei is an anti-viral drug used for the treatment of influenza. We introduced our oseltamivir phosphate products to the PRC market in 2007 and have a proven track record of manufacturing and selling oseltamivir phosphate capsules. Oseltamivir phosphate capsules are sold by Oseltamivir Phosphate Licensor under another brand name in various countries. The granules form of Kewei was introduced by us in 2009 to target the paediatrics market for anti-influenza virus products in the PRC, in which we believe Kewei will have strong growth

potential. In addition, we hold the patent to the granules form of this product in the PRC, which has allowed us to secure a strong position in the anti-influenza virus product market in the PRC. For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our turnover generated from our oseltamivir phosphate products was RMB9.2 million, RMB70.1 million, RMB194.5 million and RMB270.9 million, respectively, representing a CAGR of 359.8% from 2012 to 2014. We have the right to use certain patents relating to oseltamivir phosphate. Such right is licensed to Shenzhen HEC Industrial by Oseltamivir Phosphate Licensor with the benefits being extended to us by Shenzhen HEC Industrial. Three of the eight licensed patents from Oseltamivir Phosphate Licensor that claim the oseltamivir phosphate compound will soon expire, with two in February 2016 and one in August 2017, while the remaining five licensed patents relate to production processes relating to oseltamivir phosphate. With the expiry of the key patents that claim the oseltamivir phosphate compound, other pharmaceutical companies may manufacture and sell oseltamivir phosphate products in the PRC. However, as advised by PICO, in relation to applications relating to generic pharmaceutical products, the time period from the date of submission of application for commencing clinical trials to obtaining the necessary approvals will take approximately three years (taking into account the current backlog of applications). Please see "Risk Factors – Our ability to manufacture and sell our leading product, Kewei, depends on a number of patents that are licensed from Oseltamivir Phosphate Licensor. The patents in relation to oseltamivir phosphate will begin to expire in February 2016." and "Business – Our Products – Anti-viral products – Kewei (Oseltamivir phosphate) – Our relationship with Oseltamivir Phosphate Licensor".

The current licence agreement relating to the use of the above-mentioned oseltamivir phosphate patents is entered into between Oseltamivir Phosphate Licensor and Shenzhen HEC Industrial, one of our Controlling Shareholders. Under the terms of this agreement, the benefits of the licence are extended by Shenzhen HEC Industrial to our Company. The current term of the licence agreement may be extended by Shenzhen HEC Industrial until 31 December 2017.

In relation to our endocrine and metabolic diseases therapeutic area, Ertongshu (benzbromarone tablets) is our key product. Ertongshu is a drug used for the treatment of high levels of uric acid (hyperuricemia). For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our turnover generated from the sale of Ertongshu was RMB17.3 million, RMB23.3 million, RMB30.0 million and RMB14.8 million, respectively, representing a CAGR of 31.7% from 2012 to 2014. According to PICO, benzbromarone products accounted for 62.6%, 62.8% and 60.6% of the PRC market for the treatment of hyperuricemia (based on retail prices, excluding traditional Chinese medicine products) in 2012, 2013 and 2014, respectively.

In relation to our cardiovascular diseases therapeutic area, Oumeining (telmisartan tablets) and Xinhaining (amlodipine besylate tablets) are our key products. Oumeining is an angiotensin II receptor antagonist used for the treatment of hypertension. Xinhaining is a calcium channel blocker that is used for the treatment of hypertension and other related cardiovascular diseases. For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our turnover generated from the sale of Oumeining and Xinhaining was RMB69.4 million, RMB69.4 million, RMB77.6 million and RMB38.1 million, respectively, representing a CAGR of 5.7% from 2012 to 2014. According to PICO, telmisartan products accounted for 4.2%, 3.7% and 3.2% of the PRC market for treatment of hypertension (based on retail prices, excluding traditional Chinese medicine products) in 2012, 2013 and 2014, respectively. According to PICO, amlodipine besylate products accounted for 6.4%, 7.3% and 7.2% (based on retail prices, excluding traditional Chinese medicine products) of the PRC market for treatment of hypertension in 2012, 2013 and 2014, respectively.

According to PICO, our key products are relatively well positioned in their respective product market in the PRC. Please refer to the table below for details of such market positions.

Product Name	Ranking and Market Share[1]
Kewei (oseltamivir phosphate) (granules and capsules)	In respect of the sale of oseltamivir phosphate products in the PRC: 2014: No. 1 (84.1% of the oseltamivir phosphate product market) 2013: No. 1 (71.9% of the oseltamivir phosphate product market) 2012: No. 2 (17.9% of the oseltamivir phosphate product market)
Ertongshu (benzbromarone tablets)	In respect of the sale of benzbromarone products in the PRC: 2014: No. 3 (10.4% of the benzbromarone product market) 2013: No. 3 (10.5% of the benzbromarone product market) 2012: No. 3 (9.8% of the benzbromarone product market)
Oumeining (telmisartan tablets)	In respect of the sale of telmisartan products in the PRC: 2014: No. 4 (7.0% of the telmisartan product market) 2013: No. 4 (6.6% of the telmisartan product market) 2012: No. 3 (6.6% of the telmisartan product market)
Xinhaining (amlodipine besylate tablets)	In respect of the sale of amlodipine besylate products in the PRC: 2014: No. 6 (2.3% of the amlodipine besylate product market) 2013: No. 5 (2.3% of the amlodipine besylate product market) 2012: No. 5 (2.5% of the amlodipine besylate product market)

Please see "Business – Our Products".

1 Based on retail prices and sales volume

The table below sets out a breakdown of our top five products by turnover and as a percentage of our turnover during the Track Record Period.

Product	Year Ended 31 December						Six Months Ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Kewei	9,198	3.4%	70,116	22.2%	194,473	44.1%	126,017	52.0%	270,889	70.7%
Oumeining	35,164	13.1%	38,831	12.3%	42,604	9.7%	20,875	8.6%	22,027	5.8%
Xinhaining	34,209	12.7%	30,614	9.7%	35,020	7.9%	15,693	6.5%	16,096	4.2%
Ertongshu	17,297	6.4%	23,338	7.4%	30,025	6.8%	12,416	5.1%	14,774	3.9%
Xining	33,206	12.3%	32,003	10.1%	35,543	8.1%	15,328	6.3%	14,664	3.8%
Sub-total for our top five products	129,074	47.9%	194,902	61.7%	337,665	76.6%	190,329	78.5%	338,450	88.4%
Other turnover	140,133	52.1%	121,527	38.3%	103,239	23.4%	51,978	21.5%	44,414	11.6%
Total	269,207	100.0%	316,429	100.0%	440,904	100.0%	242,307	100.0%	382,864	100.0%

The table below sets out the gross profit margins of our top five products during the Track Record Period.

Product	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	Gross Profit Margin	*Gross Profit Margin*	*Gross Profit Margin*	*Gross Profit Margin*	*Gross Profit Margin*
Kewei (granules)	32%	73%	78%	75%	79%
Kewei (capsules)	53%	55%	77%	71%	73%
Oumeining	86%	89%	81%	82%	88%
Xinhaining	91%	87%	89%	88%	89%
Ertongshu	91%	91%	92%	91%	91%
Xining	88%	88%	88%	88%	88%

Our Future Products

We currently have a number of products under development in the above key therapeutic areas. In addition, going forward we intend to expand our products to cover other key therapeutic areas, including products for the treatment of digestive diseases.

We are particularly well positioned in developing our future products for the treatment of endocrine and metabolic diseases. As at the Latest Practicable Date, we had three forms of insulin APIs (recombinant human insulin (second generation insulin), insulin glargine (third generation insulin) and insulin aspart (third generation insulin)) under development, which we intend to develop into six different insulin finished products. This product portfolio will enable us to provide diabetic patients with comprehensive treatment options and allow us to acquire a share of the growing market for products for the treatment of diabetes in the PRC.

In the therapeutic area of products for digestive diseases, we intend to introduce a number of proton pump inhibitor (PPI) products that treats various gastric and digestive diseases. PPI products are one of the most commonly used drugs for the treatment of peptic ulcers in the PRC, and we believe that our pipeline products in this therapeutic area will allow us to have one of the most comprehensive PPI product portfolio in the PRC.

In the therapeutic area of anti-viral products, we have entered into an agreement with Sunshine Lake Pharma in which we have acquired the right to produce and sell yimitasvir phosphate products and follow-up direct anti-viral agent compounds worldwide upon completion of development. Yimitasvir phosphate is an NS5A inhibitor used for the treatment of Hepatitis C viral infections. It is anticipated to be a National Class 1.1 drug and we believe it will be the first anti-Hepatitis C direct antiviral agent (DAA) drug wholly developed by a PRC company. We believe that this will be an important drug for the treatment of Hepatitis C viral infections in the PRC in the future. We also intend to continue to acquire the rights to other new products pursuant to the Strategic Cooperation Agreement and through strategic acquisitions and licences from other third parties.

As at the Latest Practicable Date, we had 18 key products in different stages of development. Such 18 key products not only cover the three key therapeutic areas described above, but also cover therapeutic areas such as our current key therapeutic area of cardiovascular diseases, and new therapeutic areas such as diseases relating to the central nervous system.

Our Strategic Relationship with HEC Research Group

We have entered into the Strategic Cooperation Agreement with Shenzhen HEC Industrial, which provides us with a pre-emptive right to acquire the products being developed by HEC Research Group. The term of the Strategic Cooperation Agreement is for an initial period of five years from the date of Listing and may be extended, at our option, for a further period of five years. We consider this arrangement to be appropriate as this allows us to first assess the appropriateness of our strategies relating to research and development and the acquisition of new products. As we have the option to extend the term of the Strategic Cooperation Agreement for a further five years, we can choose to retain the above pre-emptive right for the next ten years after Listing. By reference to the number of patents filed in the PRC, HEC Research Group is one of the leading pharmaceutical research institutions in the PRC, with over 1,200 research fellows, including 19 overseas experts, and 64 research fellows holding doctoral degrees. The Strategic Cooperation Agreement will allow us to have the opportunity to acquire innovative drugs, biologics and generic drugs being developed by a leading PRC pharmaceutical research institution, paving the way for the continual expansion of our product portfolio.

The pharmaceutical research and development segment of the HEC group was established in 2005. It currently has three major research divisions that focuses on innovative drugs, biologics and generic drugs over a wide range of therapeutic areas, including infectious diseases, oncology, diseases relating to the central nervous system, metabolic diseases,

diseases relating to the immune system and cardiovascular diseases, allowing it to independently conduct research and development in innovative drugs, biologics and generic drugs. HEC Research Group comprises Yichang HEC Research, Linzhi HEC Pharmaceutical Investment and their respective subsidiaries and are controlled by Shenzhen HEC Industrial.

Research and Development Strategies

Our research and development activities are mostly in relation to our existing products, our pipeline products that we already own, and their respective related manufacturing and production processes. Our strategy in relation to acquiring products that are not in our product pipeline is to acquire the right to manufacture and sell such new products from third parties or pursuant to the Strategic Cooperation Agreement with Shenzhen HEC Industrial. Our strategy on research and development is to conduct research and development in relation to the production and manufacturing processes of our existing and pipeline products with a view of modifying such processes to reduce unit costs, decrease production time and to improve the inter-changeability of production lines for different types of our products.

Please see "Business – Research and Development".

Our Distribution Network

We primarily sell our products within the PRC. We generate demand for our pharmaceutical products from hospitals and other medical institutions through our sales and marketing activities, including educational promotion activities, and generate turnover by selling our pharmaceutical products to GSP certified distributors who, in turn, sell our products to hospitals and other medical institutions. We develop our marketing and promotion strategies centrally in order to maximise our brand recognition and optimise our market position of our key products in the PRC.

We have established an extensive distribution network within the PRC. As at 30 June 2015, we have 179 sales and marketing staff that have established relationships with 1,594 third party distributors throughout the PRC, which covers all provinces, and autonomous regions within the PRC. During the Track Record Period, we also generated a small portion of our turnover through overseas sales of API.

Our Manufacturing Facilities and Suppliers

We have obtained GMP certification for the production of our current pharmaceutical products. All of our production facilities are located in Yidu, Hubei. Our Yidu Base Area No. 1 is our primary production facility and currently produces all of our oral solid formulations (being tablets, granules and capsules). Our Yidu Base Area No. 2 is a production facility for APIs. Our Yidu Base Area No. 3 is our primary production facility for insulin-related products (which are still under development). We exercise stringent quality assurance controls over the quality of our products.

Our suppliers include suppliers of raw materials for our pharmaceutical products (such as APIs), packaging material and our equipment parts. All of our raw materials are acquired within the PRC. During the three years ended 31 December 2012, 2013 and 2014 and for the

six months ended 30 June 2015, our purchases from our five largest suppliers were RMB56.9 million, RMB46.2 million, RMB35.0 million and RMB17.2 million, respectively, representing approximately 49.2%, 39.8%, 29.2% and 17.4% of our total cost of sales for the respective periods. Three of our top five largest suppliers during the Track Record Period are connected persons, being Parent Company (who supplies us with certain APIs), Shaoguan HEC Printing (who supplies us with certain packaging materials) and Yichang HEC Power Plant Co., Ltd. (宜昌東陽光火力發電有限公司) (who supplies us with electricity and steam in Yidu). We did not enter into long-term supply contracts with our suppliers, and raw materials and other supplies are provided on an individual basis on an "per order" basis. We minimise supplier risk by having at least two suppliers for each type of raw material that is required in our manufacturing process. This approach allows us to mitigate any reliance risk on any single supplier, and at the same time allows us to compare the quality, price and efficiency of delivery of raw materials and supplies by our suppliers. Please see "Business – Raw Materials Procurement".

Our Key Future Expansion and Upgrade Plans

We intend to construct a new oral formulation production plant at our vacant land at Yidu Base Area No. 3. Upon completion of the production plant, our production capacity is expected to increase by 1,000 million tablets per year, 500 million capsules per year and 200 million packets of granules per year. The increased capacity will allow us to satisfy anticipated increases in market demand for our key products such as Kewei, Oumeining, Xinhaining, Ertongshu and our future products. At the same time, we are planning to construct a new production factory for insulin glargine API and insulin aspart API at Yidu Base Area No. 3. Upon completion of this new production factory, we expect to increase our annual production capacity for insulin glargine API by 200kg per year and insulin aspart API by 450kg per year, which will allow us to satisfy future market demand.

OUR COMPETITIVE STRENGTHS

We attribute our success to, and distinguish ourselves by, the following key competitive strengths:

- we have a track record of developing, manufacturing and selling successful anti-viral products in the PRC. We are amongst the top four pharmaceutical companies in the PRC in the anti-influenza virus product market and our core product, Kewei (oseltamivir phosphate), is the leading product in the oseltamivir phosphate product market in the PRC;

- we have a pipeline of competitive products in our key therapeutic areas (especially insulin type products) which we believe will allow us to achieve further growth to our business;

- we have unique access to new drug products pursuant to the Strategic Cooperation Agreement, which enhances our ability to expand our product portfolio and mitigate research and development risks;

- we have an extensive sales network which provides us with deep market penetration and a wide coverage of hospitals and medical institutions; and

- we have a stable, experienced and dedicated senior management team.

OUR STRATEGIES AND FUTURE PLANS

We intend to focus on our current key therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases and, going forward, to expand our key therapeutic areas to include digestive diseases. Over the longer term, our objective is to become a leading pharmaceutical company in the therapeutic areas in the PRC that are applicable to us. In order to achieve our objectives, we intend to pursue the following strategies:

- further secure our position in the oseltamivir phosphate market and enhance our position in the anti-influenza virus market in the PRC and strengthen the market's perception of our strengths in the anti-viral therapeutic area;
- expand our product portfolio in strategically selected therapeutic areas;
- improve and internationalise our production standards as our product portfolio expands;
- continue to expand our coverage of hospitals and other medical institutions and deepen our market penetration through effective sales and marketing efforts and enhancing our sales and marketing team; and
- continue to improve our profitability by enhancing our efficiency and enhancing our management and business procedures.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following is a summary of our consolidated financial information as at and for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, as applicable. We have derived the summary from our consolidated financial information set forth in the Accountants' Report in Appendix I to this prospectus. The following summary should be read together with the consolidated financial information in Appendix I to this prospectus, including the accompanying notes and the information set forth in the section headed "Financial Information" in this prospectus. Our financial information was prepared in accordance with IFRS.

Summary Consolidated Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth, for the periods indicated, our consolidated results of operations.

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Turnover	269,207	316,429	440,904	242,307	382,864
Cost of sales	(115,724)	(115,968)	(119,829)	(71,124)	(98,996)
Gross profit	153,483	200,461	321,075	171,183	283,868
Other revenue[(1)(2)(3)]	40,652	66,701	54,829	27,794	4,678
Distribution costs	(25,124)	(30,599)	(60,115)	(18,357)	(40,794)
Administrative expenses	(91,416)	(117,237)	(110,312)	(59,693)	(49,835)
Other net loss	(6)	(202)	(32)	–	(254)
Profit from operation	77,589	119,124	205,445	120,927	197,663
Finance costs	(46,897)	(48,944)	(42,330)	(23,469)	(14,509)
Profit before taxation	30,692	70,180	163,115	97,458	183,154
Income tax	(7,684)	(12,380)	(27,772)	(15,401)	(29,906)
Profit for the year/period attributable to equity shareholders of the Company	23,008	57,800	135,343	82,057	153,248
Total comprehensive income for the year/ period attributable to equity shareholders of the Company	23,008	57,800	135,343	82,057	153,248

Notes:

(1) For each of the three years ended 31 December 2014 and the six months ended 30 June 2014 and 2015, the government grants to the Group represented 24.2%, 7.6%, 3.5%, 2.8% and 1.4% of our net profit, respectively, and therefore we consider that the significance of government grants to our net profit has reduced. Please see "Risk Factors – Risks Relating to Our Business and Industry – We have historically received government grants for our research and development activities and there can be no assurances that we will continue to receive such grants." in this prospectus for further details of the risk of the unavailability of such government grants.

(2) For each of the three years ended 31 December 2014 and the six months ended 30 June 2014 and 2015, research service income represented 6.4%, 10.1%, 5.8%, 6.1% and 0.3% of our total revenue (comprising turnover and other revenue), respectively, and represented 86.0%, 66.7%, 21.2%, 20.1% and 0.7% of our net profit, respectively. Accordingly, we consider that the significance of research service income to our total revenue has reduced during the Track Record Period. Please note that research service income as a percentage of net profit does not take into account the costs associated with the provision of such research service. As we have decided to focus on manufacturing pharmaceutical products instead of providing research services to related parties, we will generate less research service income in the future.

(3) For each of the three years ended 31 December 2014 and the six months ended 30 June 2014 and 2015, interest income represented 4.8%, 5.9%, 4.3%, 3.3% and 0.3% of our total revenue (comprising turnover and other revenue), respectively and represented 65.2%, 39.0%, 15.7%, 10.9% and 0.9% of our net profit, respectively. The amount of interest income derived from loans to related parties for each of the three years ended 31 December 2014 and the six months ended 30 June 2014 and 2015 was RMB14,660,000, RMB22,043,000, RMB21,060,000, RMB8,829,000 and RMB737,000, respectively. Accordingly, we consider that the significance of interest income to our total revenue has reduced during the Track Record Period. As we had discharged all the inter-company loans before Listing, we will not generate interest income from inter-company loans to related parties going forward.

Our turnover increased by 17.5% from RMB269.2 million in 2012 to RMB316.4 million in 2013, and further increased by 39.3% to RMB440.9 million in 2014. Our net profit increased by 151.3% from RMB23.0 million in 2012 to RMB57.8 million in 2013, and further increased by 134.1% to RMB135.3 million in 2014. For the six months ended 30 June 2014 and 2015, our turnover increased by 58.0% from RMB242.3 million to RMB382.9 million, and our net profit increased by 86.6% from RMB82.1 million to RMB153.2 million. In the Track Record Period, the increase in our turnover was mainly due to increases in turnover derived from sales of anti-viral drugs, cardiovascular drugs and endocrine and metabolic drugs and the increase in our net profit was primarily due to a higher proportion of sales of our Kewei which had a relatively high gross profit margin. Our other revenue primarily consists of government grants, allowance granted for our research and development projects and other awards granted by local authorities, interest income, and research and development service income received from related parties and other miscellaneous income. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our gross profit margin was 57.0%, 63.4%, 72.8%, 70.6% and 74.1%, respectively, and the growth of our gross profit margin during the Track Record Period was primarily due to (i) a higher proportion of sales of our Kewei products, which had a high gross profit margin, and (ii) decreases in our unit cost of depreciation and unit labour cost. We have been promoting the development of the oseltamivir phosphate market and seek to build on the success of our Kewei products by increasing our focus on the standardised diagnosis and treatment of influenza in our educational promotion activities, and further increasing our market share in both the oseltamivir phosphate products market in the PRC and the anti-influenza virus products market in the PRC. We intend to continue to focus on our current key therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases and, going forward, to expand our key therapeutic areas to include digestive diseases.

Summary Consolidated Statements of Financial Position

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total current assets	730,664	859,563	478,245	1,156,020
Total current liabilities	640,678	755,260	445,990	477,985
Net current assets	89,986	104,303	32,255	678,035
Total assets less current liabilities	850,109	902,856	503,541	1,149,194
Net assets	421,121	478,921	277,255	947,597
Total equity	421,121	478,921	277,255	947,597

Key Financial Ratios

		Year ended 31 December/ As at 31 December			Six months ended 30 June/ As at 30 June
	Notes	2012	2013	2014	2015
Liquidity ratios					
Current ratio (times)	*(1)*	1.1x	1.1x	1.1x	2.4x
Quick ratio (times)	*(2)*	0.8x	0.8x	0.6x	2.1x
Capital adequacy ratios					
Debt-to-equity ratio	*(3)*	151.2%	160.5%	118.5%	Net cash
Gearing ratio	*(4)*	158.6%	167.3%	149.7%	44.3%
Profitability ratios					
Return on total assets	*(5)*	1.7%	3.7%	10.4%	11.9%
Return on equity	*(6)*	5.6%	12.8%	35.8%	25.0%

Notes:

(1) Current ratio represents current assets as at a record date divided by current liabilities as at the same record date.

(2) Quick ratio represents current assets excluding inventories as at a record date divided by current liabilities as at the same record date.

(3) Debt-to-equity ratio represents total net debt (which is equal to total loans and borrowings less cash and cash equivalents) as at a record date divided by total equity as at the same record date.

(4) Gearing ratio represents total loans and borrowings as at a record date divided by total equity as at the same record date.

(5) Return on assets represents net profit for a period divided by the average assets as at the beginning and the end of such period. Figures for the six months ended 30 June 2015 have not been annualised.

(6) Return on equity represents net profit for a period divided by the average equity as at the beginning and the end of such period. Figures for the six months ended 30 June 2015 have not been annualised.

Gross Profit and Net Profit

Gross profit represents the excess of revenue over cost of sales. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our gross profit was RMB153.5 million, RMB200.5 million, RMB321.1 million, RMB171.2 million and RMB283.9 million, respectively, and our gross profit margin was 57.0%, 63.4%, 72.8%, 70.6% and 74.1%, respectively.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our net profit was RMB23.0 million, RMB57.8 million, RMB135.3 million, RMB82.1 million and RMB153.2 million, respectively, and our net profit margin was 8.5%, 18.3%, 30.7%, 33.9% and 40.0%, respectively. (Net profit margin is calculated by dividing net profit by turnover for the period.)

OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Global Offering, our Controlling Shareholders are: Parent Company, Linzhi HEC Pharmaceutical Investment, Dongguan HEC Industrial, Shenzhen HEC Industrial, Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. (乳源瑤族自治縣寓能電子實業有限公司), Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. (乳源瑤族自治縣新京科技發展有限公司), Mr. Zhang and Ms. Guo (the spouse of Mr. Zhang). Mr. Zhang and Ms. Guo will indirectly control 49.93% of the issued share capital of the Company, assuming the Over-allotment Option is not exercised. In order to avoid any potential competition between the Controlling Shareholders and the Company, the Controlling Shareholders have entered into the Non-competition Agreement with the Company and have undertaken that neither they nor any of their associates will engage in any business that competes directly or indirectly or may compete with our core businesses.

PRE-IPO INVESTORS

On 5 June 2015, the Pre-IPO Investors (being Ample Market Investment Limited, Champion Zone Investment Limited, M.R. Pharma (H.K.) Limited, Splendid Healthcare Limited, Watertower Investment Limited and Wealth Strategy Holding Limited) and the Company entered into a capital increase agreement for the purposes of implementing the Pre-IPO Investment. The Pre-IPO Investment was completed on 29 June 2015. Pursuant to the Pre-IPO Investment Agreement, a total of 60,527,450 Shares were issued and allotted to the Pre-IPO Investors for a total consideration of RMB517,086,000.

Please see "History, Reorganisation and Corporate Structure – Pre-IPO Investment".

GLOBAL OFFERING STATISTICS

Offer Size:	Initially 20% of the enlarged issued share capital of the Company
Offering Structure:	Approximately 10% for Hong Kong Public Offering (subject to reallocation) and approximately 90% for International Offering (subject to reallocation and the Over-allotment Option)
Over-allotment Option:	Up to approximately 15% of the number of Offer Shares initially available under the Global Offering
Offer Price Per Share:	HK$13.70 to HK$18.50 per Offer Share

	Based on an Offer Price of HK$13.70 per H Share	**Based on an Offer Price of HK$18.50 per H Share**
Market capitalisation of the Shares[(2)]	HK$6,174.0 million	HK$8,337.2 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share	RMB4.21 (HK$5.10)	RMB4.97 (HK$6.02)

Notes:

(1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.

(2) The calculation of market capitalisation is based on 90,132,000 H Shares expected to be issued under the Global Offering, and assuming that 450,659,450 Shares are issued and outstanding immediately following the completion of the Global Offering.

(3) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in the section headed "Appendix II – Unaudited Pro Forma Financial Information" to this prospectus and on the basis that 450,659,450 Shares are issued and outstanding immediately following the completion of the Global Offering.

USE OF PROCEEDS

We estimate that the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK$16.10 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK$1,351.1 million, after deduction of underwriting fees and commissions and estimated expenses paid or payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised. We intend to use the net proceeds of the Global Offering for the following purposes:

Amount	**Approximate % of total estimated net proceeds**	**Intended use**
HK$605.6 million (RMB500.0 million)	44.8%	Construction of a new oral formulation production plant at Yidu Base Area No. 3
HK$170.2 million (RMB140.5 million)	12.6%	Construction of a new insulin production plant at Yidu Base Area No. 3

Amount	Approximate % of total estimated net proceeds	Intended use
HK$440.2 million (RMB363.5 million)	32.6%	Promotional and marketing activities for our products, including educational promotion activities, advertisements and sponsorships, publishing marketing and promotional materials, expanding and establishing specialised teams for our key products and conducting market research in relation to our products
HK$135.1 million (RMB111.6 million)	10.0%	Working capital and general corporate purposes

DIVIDEND POLICY

For the years ended 31 December 2014, we declared and paid dividends in the amount of RMB390 million. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

Our Board is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. Our Board may declare dividends in the future after taking into account our distributable profits, financial condition, cash flow, expected future capital expenditure, return to our Shareholders, capital requirements, finance costs, the external financing environment and any other factors that the Directors may deem relevant. Any declaration and payment, as well as the amount of, dividends will be subject to the requirements of our constitutional documents and the PRC Company Law. Under the PRC Company Law and our Articles of Association, dividends are distributed to our Shareholders in proportion to their shareholdings. We currently do not have a fixed pay-out ratio for future cash dividends. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into from time to time.

LISTING EXPENSES

The estimated total listing expenses (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised and any discretionary incentive fees in the Global Offering are paid in full) incurred or to be incurred in relation to the Global Offering are approximately RMB82.5 million, of which RMB20.9 million will be charged as administrative expenses to our profit or loss and RMB61.6 million will be charged against equity.

For the six months ended 30 June 2015, we incurred listing expenses of RMB5.1 million.

RECENT DEVELOPMENTS

Set forth below are certain material developments on our business, results of operations and industry after 30 June 2015, being the end of the Track Record Period:

- on 6 December 2015, we entered into a strategic cooperation agreement with Shenzhen HEC Industrial in which we have a pre-emptive right to acquire the right to manufacture and sell new pharmaceutical products being developed by HEC Research Group and its subsidiaries (see "Business – Research and Development – Strategic Cooperation Agreement with Shenzhen HEC Industrial");

- on 22 July 2015, we entered into an agreement with Sunshine Lake Pharma in which we have acquired the right to use all the relevant knowhow and patents relating to yimitasvir phosphate and follow-up direct anti-viral agent compounds (see "Financial Information – Subsequent Events"); and

- Since July 2015, the CFDA has introduced certain measures to deal with its current backlog of drug applications. On 22 July 2015, the CFDA issued Notice No. 117 (CFDA notice in relation to self-review of clinical trials data) (國家食品藥品監督管理總局關於開展藥物臨床試驗數據自查核查工作的公告), which required the current applicants in respect of the existing 1,622 drug manufacturing or drug import applications to the CFDA to re-review the clinical trials data in respect of each such application. On 31 July 2015, the CFDA issued Notice No. 140 (Consultation on policy in relation to swiftly resolving the problem of congested drug applications) (關於徵求加快解決藥品註冊申請積壓問題的若干政策意見), which stated that it would apply the most stringent standard to review and approve the current drug applications. In addition, on 11 November 2015, the CFDA issued Notice No. 230 (Certain policies in relation to review and approval of drug applications) (關於藥品註冊審評審批若干政策的公告), which set out ten key points to be applied in the process of reviewing and approving the current drug applications, with an emphasis on the accuracy of clinical trials data, the effectiveness of the drug and the consistency between the original innovative version and the generic version of a product as demonstrated in comparability studies. The combination of Notice No. 117, Notice No. 140 and Notice No. 230 means that pharmaceutical companies will need to conduct self-review of their current drug applications to see if it meets the stringent standards of the CFDA, failing which, the CFDA would expect the relevant applicant to withdraw its drug application and to resubmit the relevant drug application when the requirements are met. By raising the standards required in respect of drug applications, this may delay our applications in relation to our future products or, in the worst case scenario, require us to withdraw our applications. Taking into account the above change in policy and regulatory affairs, we have since withdrawn seven of our drug applications. Separately, we have been notified by the CFDA that three of our drug applications will be returned to us due to insufficient data provided with the original drug applications. Please see "Risk Factors – The necessary approvals in relation to our upcoming products in our product pipeline may be delayed or may not be obtained." and "Business – Research and Development – New Measures by the CFDA".

Other than the lifting of retail price controls over pharmaceutical products from 1 June 2015 (see "Regulatory Overview – Drug Price") and as set out above, the Directors are not aware of any material changes in the PRC pharmaceutical manufacturing industry between the end of the Track Record Period and the Latest Practicable Date.

The Directors confirm that, since the end of the Track Record Period and up to the date of this prospectus, there has been no material adverse change in our business, results of operations and financial condition and there has been no event which would materially affect the information shown in our consolidated financial statements included in the Accountants' Report set forth in Appendix I to this prospectus.

RISK FACTORS

There are certain risks and uncertainties involved in our operations and many of these are beyond our control. We have categorised these risks and uncertainties as follows: (i) risks relating to our business and industry; (ii) risks relating to conducting business in the PRC; and (iii) risks relating to the global offering and our H Shares. We believe the most significant risks we face include the followings:

- our ability to manufacture and sell our leading product, Kewei, depends on a number of patents that are licensed from Oseltamivir Phosphate Licensor. The patents in relation to oseltamivir phosphate will begin to expire in February 2016;

- the necessary approvals in relation to our upcoming products in our product pipeline may be delayed or may not be obtained;

- our business could be adversely affected if we fail to maintain an effective distribution network for our pharmaceutical products;

- our ability to expand our product portfolio depends on our ability to acquire from other parties the rights to manufacture and sell new products, in particular, we will continue to rely on the Strategic Cooperation Agreement with Shenzhen HEC Industrial. We conduct limited research and development in-house in respect of new products;

- we currently depend on a limited number of key products. If we are unable to maintain the sales volumes, pricing levels and profit margins of our key products, our turnover and profitability could be materially and adversely affected;

- if the current licence agreement with Oseltamivir Phosphate Licensor relating to certain oseltamivir phosphate patents is not renewed or terminated, this may materially and adversely affect our business, operations and financial position; and

- the PRC pharmaceutical manufacturing industry is highly regulated, and any changes to the regulatory framework could materially and adversely affect our business and operations.

In addition, we have a historical non-compliance incident relating to social security insurance and housing provident funds. For details, see "Business – Legal and Compliance". A detailed discussion of all the risk factors involved are set forth in the section headed "Risk Factors" in this prospectus and you should read the whole section carefully before you decide to invest in the Offer Shares.

In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings. Certain other terms are explained in the section headed "Glossary of Technical Terms" in this prospectus.

"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or, where the context so requires, any of them
"Articles of Association"	the articles of association of the Company (as amended from time to time), a summary of which is set out in Appendix V "Summary of the Articles of Association" to this prospectus
"Board" or "Board of Directors"	the board of directors of the Company
"Business Day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
"CAGR"	compound annual growth rate
"CCASS"	Central Clearing and Settlement System
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CFDA"	the State Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理總局)
"CICC"	China International Capital Corporation Hong Kong Securities Limited

"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company"	YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (宜昌東陽光長江藥業股份有限公司), a company established in the PRC on 11 May 2015 as a joint stock company
"Controlling Shareholders"	has the meaning given to it under the Listing Rules and, unless the context requires otherwise, refers to Parent Company, Linzhi HEC Pharmaceutical Investment, Dongguan HEC Industrial, Shenzhen HEC Industrial, Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. (乳源瑤族自治縣寓能電子實業有限公司) (a company incorporated in the PRC on 26 June 2001), Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. (乳源瑤族自治縣新京科技發展有限公司) (a company incorporated in the PRC on 26 June 2001), Mr. Zhang and Ms. Guo
"Cornerstone Investors"	the cornerstone investors as described in the section headed "Our Cornerstone Investors" in this prospectus
"CSRC"	China Securities Regulatory Commission (中華人民共和國證券監督管理委員會)
"Director(s)"	the member(s) of the Board of Directors
"Domestic Shares"	ordinary shares issued by the Company in the PRC, with a nominal value of RMB1.00 each, which are subscribed for and paid for in RMB
"Dongguan HEC Industrial"	Dongguan HEC Industrial Development Co., Ltd. (東莞市東陽光實業發展有限公司) (a company incorporated in the PRC on 17 December 2004), a subsidiary controlled by Shenzhen HEC Industrial

"Dongguan HEC Research"	Dongguan HEC Medicine Development and Research Co., Ltd. (東莞東陽光藥物研發有限公司) (a company incorporated in the PRC on 23 August 2002), a subsidiary of Linzhi HEC Pharmaceutical Investment
"EIT Law"	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得税法》) issued on 16 March 2007 and its implementation rules issued on 6 December 2007, both effective from 1 January 2008
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"Group", "we", "our" and "us"	the Company and its subsidiaries
"Guangdong HEC Technology"	Guangdong HEC Technology Holding Co. Ltd. (廣東東陽光科技控股股份有限公司) (a company incorporated in the PRC on 24 October 1996), whose shares are listed on the Shanghai Stock Exchange (stock code: 600673). As at the Latest Practicable Date, Shenzhen HEC Industrial owns more than 30% in Guangdong HEC Technology and therefore Guangdong HEC Technology is a connected person of the Company
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"H Shares"	overseas listed foreign share(s) in the Company's ordinary share capital, with a nominal value of RMB1.00 each, which are to be listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
"HEC Group"	Shenzhen HEC Industrial and any other company in which it controls at least 30% of the voting rights in that other company
"HEC Research Group"	Yichang HEC Research, Linzhi HEC Pharmaceutical Investment and their respective subsidiaries

"HKICPA"	Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars," "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Offer Shares"	the 9,013,200 Shares being initially offered by the Company for subscription at the Offer Price under the Hong Kong Public Offering (subject to reallocation as described in the section headed "Structure of the Global Offering" in this prospectus)
"Hong Kong Public Offering"	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price on and subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms
"Hong Kong Underwriters"	the underwriters listed in the section headed "Underwriting – Hong Kong Underwriters" in this prospectus, being the underwriters of the Hong Kong Public Offering
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 14 December 2015 relating to the Hong Kong Public Offering and entered into by the Representative, the Joint Global Coordinators, the Hong Kong Underwriters, the Company and certain other covenantors, as further described in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement"
"IFRS"	the International Financial Reporting Standards
"Independent Third Party"	a party that is not connected with (within the meaning of the Listing Rules) any director, chief executive or substantial shareholder of the Company or any of its subsidiaries or any of their respective associates

"International Offer Shares"	the 81,118,800 H Shares being initially offered under the International Offering together with, where relevant, any additional Shares that may be issued by the Company pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in the section headed "Structure of the Global offering" in this prospectus
"International Offering"	the offer of the International Offer Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs only in reliance on Rule 144A or any other available exemption from registration under the U.S. Securities Act, as further described in the section headed "Structure of the Global Offering" in this prospectus
"International Purchasers"	the group of purchasers, led by the Representative, that is expected to enter into the International Purchase Agreement to underwrite the International Offering
"International Purchase Agreement"	the international purchase agreement relating to the International Offering, which is expected to be entered into by the Representative, the Joint Global Coordinators, the International Purchasers, the Sole Sponsor, the Company and certain other covenantors on or about 18 December 2015, as further described in the section headed "Underwriting – Underwriting Arrangements and Expenses – The International Offering – International Purchase Agreement"
"Joint Bookrunners"	CICC, ICBC International Capital Limited, CMB International Capital Limited, ABCI Capital Limited, CCB International Capital Limited and Nomura International (Hong Kong) Limited
"Joint Global Coordinators"	CICC, ICBC International Capital Limited and CMB International Capital Limited
"Joint Lead Managers"	CICC, ICBC International Securities Limited, CMB International Capital Limited, ABCI Securities Company Limited, CCB International Capital Limited and Nomura International (Hong Kong) Limited

"Latest Practicable Date"	7 December 2015, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus prior to its publication
"Linzhi HEC Pharmaceutical Investment"	Linzhi HEC Pharmaceutical Investment Co., Ltd. (林芝東陽光藥業投資有限公司) (a company incorporated in the PRC on 15 September 2009), and is a Controlling Shareholder of the Company
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Committee"	the listing committee of the Stock Exchange
"Listing Date"	the date, expected to be on 29 December 2015, on which the H Shares are listed on the Stock Exchange and from which dealings in the H Shares are permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Macau"	the Macau Special Administrative Region of the PRC
"Mandatory Provisions"	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, which were promulgated by the PRC Securities Commission, the predecessor of the CSRC, and the State Restructuring Commission on 27 August 1994, as amended and supplemented from time to time
"Ministry of Finance" or "MOF"	the Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"MOH" or "NHFPC"	the Ministry of Health of the PRC (中華人民共和國衛生部) which became part the National Health and Family Planning Commission of the PRC (中華人民共和國國家衛生和計劃生育委員會) since March 2013

"MOHRSS"	the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部)
"MOIIT"	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
"Mr. Zhang"	Mr. ZHANG Zhongneng (張中能), the founder of our Group
"Ms. Guo"	Ms. GUO Meilan (郭梅蘭), the spouse of Mr. Zhang
"National Bureau of Statistics"	the National Bureau of Statistics of the PRC (中華人民共和國國家統計局)
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"North & South Brother Pharma"	North & South Brother Pharmacy Investment Company Limited (南北兄弟藥業投資有限公司) (a company incorporated in Hong Kong on 31 October 2006) and a current shareholder of the Company
"Offer Price"	the final offer price per Offer Share in Hong Kong dollar (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK$18.50 and expected to be not less than HK$13.70, such price to be determined by agreement between the Representative (on behalf of the Underwriters) and the Company on or before the Price Determination Date
"Offer Shares"	the H Shares offered in the Global Offering (for the purposes of this prospectus, the total number of initial Offer Shares under the Global Offering is 90,132,000 Offer Shares)
"Oseltamivir Phosphate Licensor"	F. Hoffmann-La Roche Ltd, an international pharmaceutical company based in Switzerland that holds the rights to certain patents relating to oseltamivir phosphate, an Independent Third Party

"Over-allotment Option"	the option expected to be granted by the Company to the International Purchasers, exercisable by the Representative (on behalf of the International Purchasers), pursuant to which the Company may be required to sell up to 13,519,800 H Shares (representing in aggregate 15% of the number of Offer Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offerings, details of which are described in the section headed "Structure of the Global Offering – Over-allotment Option"
"Parent Company"	HEC Pharm Co., Ltd. (宜昌東陽光藥業股份有限公司) (a company incorporated in the PRC on 12 January 2004), the direct parent company of the Company
"PBOC"	the People's Bank of China (中國人民銀行)
"PICO"	Guangzhou PICO Medicine Information Co., Ltd. (廣州標點醫藥信息有限公司), a company incorporated in the PRC on 1 July 2005, which we have commissioned to provide certain information and data in the preparation of the "Industry Overview" section of this prospectus
"PRC," "China" or the "People's Republic of China"	the People's Republic of China, excluding, for purposes of this prospectus, Hong Kong, Macau and Taiwan, unless otherwise specified
"PRC Company Law"	the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	generally accepted accounting principles in the PRC, including the Accounting Standards for Business Enterprises
"PRC Securities Law"	the Securities Law of the PRC (中華人民共和國證券法), as enacted by the Standing Committee of the National People's Congress on 29 December 1998 and effective 1 July 1999, as amended, supplemented or otherwise modified from time to time

"Pre-IPO Investment"	means the subscription of Shares by the Pre-IPO Investors as further described in "History, Reorganisation and Corporate Structure – Pre-IPO Investment"
"Pre-IPO Investment Agreement"	the agreement entered into between our Company and the Pre-IPO Investors for purpose of implementing the Pre-IPO Investment
"Pre-IPO Investors"	the pre-IPO investors of the Company as further described in "History, Reorganisation and Corporate Structure – Pre-IPO Investment"
"Price Determination Date"	the date, expected to be on or around 18 December 2015, on which the Offer Price will be determined, and in any event, not later than 28 December 2015
"QIB"	a qualified institutional buyer within the meaning of Rule 144A
"Regulation S"	Regulation S under the U.S. Securities Act
"Representative"	CICC
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the U.S. Securities Act
"Ruyuan HEC Pharma"	Ruyuan HEC Pharmaceutical Co., Ltd. (乳源東陽光藥業有限公司), a company incorporated in the PRC on 5 March 2010, an indirect subsidiary of Parent Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shaoguan HEC Printing"	Shaoguan HEC Packaging and Printing Co., Ltd. (韶關東陽光包裝印刷有限公司) (a company incorporated in the PRC on 20 May 2010), a wholly owned subsidiary of Guangdong HEC Technology and is therefore a connected person of the Company
"Shareholder"	a holder of any Share(s)

"Shares"	ordinary shares in the capital of the Company with a nominal value of RMB1.00 each, comprising H Shares and Domestic Shares
"Shenzhen HEC Industrial"	Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司) (a company incorporated in the PRC on 27 January 1997), a Controlling Shareholder that is ultimately controlled by Mr. Zhang and Ms. Guo
"Sole Sponsor"	CICC
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定) issued by the State Council of the PRC on 4 August 1994, as amended, supplemented or otherwise modified from time to time
"Stabilising Manager"	CICC
"State", "state" or "PRC government"	the government of China including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
"State Administration of Foreign Exchange" or "SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"State Administration of Industry and Commerce" or "SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategic Cooperation Agreement"	means the strategic cooperation agreement dated 6 December 2015 between the Company and Shenzhen HEC Industrial and as further described in "Business – Research and Development – Strategic Cooperation Agreement with Shenzhen HEC Industrial"

"Sunshine Lake Pharma"	Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司) (a company incorporated in the PRC on 29 December 2003), a 75% owned indirect subsidiary of Parent Company
"Supervisors"	the supervisors of the Company
"Track Record Period"	the three years ended 31 December 2014 and the six months ended 30 June 2015
"Underwriters"	the Hong Kong Underwriters and the International Purchasers
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Purchase Agreement
"United States," "U.S." or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars" or "US$"	United States dollars, the lawful currency of the United States
"U.S. Exchange Act"	the United States Securities Exchange Act of 1934, as amended
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"**White Form eIPO**"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of **White Form eIPO** at **www.eipo.com.hk**
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"WHO"	the World Health Organization
"WTO"	the World Trade Organisation
"Yichang HEC Pharmaceutical"	Yichang HEC Pharmaceutical Co., Ltd. (宜昌東陽光醫藥有限公司) (a company incorporated in the PRC on 8 July 2005) and a wholly-owned subsidiary of the Company

"Yichang HEC Research"	Yichang HEC Research Co., Ltd. (宜昌東陽光藥研發有限公司) (a company incorporated in the PRC on 12 December 2014) and a wholly-owned subsidiary of Parent Company
"%"	per cent.
"‰"	per mille.

In this prospectus, the terms "associate", "close associate", "connected person", "connected transaction", "controlling shareholder", "core connected person", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Such conversions shall not be construed as representations that amounts in Renminbi or US dollars were or could have been or could be converted into HK dollars at such rates or any other exchange rates on such date or any other date.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

"N/A" means not applicable.

Unless otherwise specified, all references to any shareholdings in the Company following the completion of the Global Offering assume no exercise of the Over-allotment Option.

The English names of companies incorporated in the PRC are translations of their Chinese names and are included for identification purposes only. The Chinese names of some of the companies incorporated outside the PRC are translations of their English names and are included for identification purposes only.

This glossary of technical terms contains explanations of certain terms and definitions used in this prospectus in connection with us and our business. As such, these terms and their meanings may not always correspond to the standard industry meaning or usage of these terms.

"antibiotics"	a chemical substance produced by microorganism which has the capacity, in dilute solutions, to inhibit the growth of or to kill bacteria
"API"	active pharmaceutical ingredient, a substance or substance combination used in manufacturing a drug product
"bacterial diseases" or "bacterial infections"	occur when a patient's body is invaded by bacteria. Many bacteria are harmless to the human body. However, bacterial diseases are caused by pathogenic bacteria that invade various parts of a patient's body. Examples of bacterial diseases include tuberculosis, pneumonia, tetanus and syphilis
"capsules"	a form in which medicines may be delivered for oral ingestion, produced by mixing extracted active medicinal ingredients with supplemental materials which are sealed in a soft gelatin capsule
"cardiovascular diseases"	diseases involving the heart or blood vessels
"CDC"	Centers for Disease Control and Prevention, the leading national public health institution in the United States
"diabetes"	a metabolic disorder that is characterised by high blood glucose (hyperglycemia) from the perspective of insulin resistance or absolute/relative insulin deficiency. Diabetes is due to either the pancreas not producing enough insulin or the cells of the body not responding properly to the insulin produced
"ECDC"	European Centre for Disease Prevention and Control, an independent agency of the European Union established with an aim to strengthen Europe's defences against infectious diseases
"EMA"	European Medicines Agency

"endocrine diseases"	diseases relating to the endocrine system of a person. The "endocrine system" of a person refers to the collection of glands that secrete hormones directly into the circulatory system to be carried towards distant target organs
"FDA"	Food and Drug Administration, a federal agency of the United States of America
"g"	gram
"generic drugs"	drugs which use the same active ingredients as the original products and are generally available in the same strengths and dosage forms as the original
"gestational diabetes"	gestational diabetes occurs when pregnant women without a previous history of diabetes develop a high blood glucose level
"GMP" or "Good Manufacturing Practice"	Good Manufacturing Practice, which are guidelines and regulations from time to time issued pursuant to the Law of the PRC on the Administration of Pharmaceuticals as part of quality assurance to ensure that pharmaceutical products subject to those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use
"gout"	a disease in which defective metabolism of uric acid causes arthritis, especially in the smaller bones of the feet, deposition of chalk-stones, and episode of acute pain
"granules"	a form in which medicines may be delivered for oral ingestion, produced by mixing extracted active medicinal ingredients with supplemental materials or powdered medicines which are formed into dry granules
"GSP" or "Good Supply Practices"	the Good Supply Practice for Pharmaceutical Products (《藥品經營質量管理規範》) published by MOH and its predecessor from time to time in relation to the management procedures and standards regulating the pharmaceutical products supply chain in China
"heart diseases"	diseases which cause sudden strong pains in the chest due to heart failure

"Hepatitis A"	according to the CDC, Hepatitis A is caused by infection with the Hepatitis A virus (HAV). HAV has an incubation period of approximately 28 days (range: 15-50 days). HAV replicates in the liver and is shed in high concentrations in feces from two weeks before to one week after the onset of clinical illness. HAV infection produces a self-limited disease that does not result in chronic infection or chronic liver disease. HAV infection is primarily transmitted by the fecal-oral route, by either person-to-person contact or consumption of contaminated food or water
"Hepatitis B"	according to the CDC, Hepatitis B is caused by infection with the Hepatitis B virus (HBV). The incubation period from the time of exposure to onset of symptoms is six weeks to six months. HBV is found in highest concentrations in blood and in lower concentrations in other body fluids (e.g., semen, vaginal secretions, and wound exudates). HBV infection can be self-limited or chronic. HBV is efficiently transmitted by percutaneous or mucous membrane exposure to infectious blood or body fluids that contain HBV
"Hepatitis C"	according to the CDC, Hepatitis C is caused by infection with the Hepatitis C virus (HCV). HCV is most efficiently transmitted through large or repeated percutaneous exposure to infected blood. The majority of persons infected by the HCV might not be aware of their infection because they are not clinically ill. However, infected persons serve as a source of transmission to others and are at risk for chronic liver disease or other HCV-related chronic diseases for a period after infection
"HIV"	human immunodeficiency virus
"hyperchlorhydria"	refers to the state in the stomach where gastric acid levels are higher than the normal range
"hyperlipidemia"	a condition involving abnormally elevated levels of any or all lipids and/or lipoproteins in the blood
"hypertension"	a cardiac chronic medical condition in which the systemic arterial blood pressure is elevated

"IDF"	International Diabetes Federation
"influenza"	highly infectious respiratory diseases caused by influenza viruses. It is characterised by sudden onset of high fever, aching muscles, headache, fatigue and a hacking cough. Serious outcome of influenza can result in hospitalization or death
"innovative drugs"	new chemical or biochemical drugs that are different from existing drugs or therapies for the treatment of diseases
"insulin"	a substance that the human body makes and uses to turn sugar into energy
"kWh"	kilowatt-hour
"metabolic diseases"	disease when abnormal chemical reactions in a person's body disrupts that person's metabolism
"mg"	milligram
"National Class 1.1"	a recognition awarded by the Centre for Drug Evaluation of China Drug and Food Administration (國家食品藥品監督管理局藥品評價中心) in respect of a drug preparation product which has not been previously launched in both PRC and international markets
"National List of Essential Drugs"	a list of drugs promulgated by MOH to promote essential medicines to be sold to consumers at fair prices and to ensure equal access to basic drugs by the general public
"National Medical Insurance Drugs Catalogue"	a catalogue of the list of pharmaceutical products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (《國家基本醫療保險、工傷保險和生育保險藥品目錄》) as determined by the PRC central government authorities for general application throughout the PRC, as amended, supplemented or otherwise modified from time to time
"oncology products"	medicine used for the treatment of cancer and tumours

"over-the-counter"	relating to pharmaceutical products which may, upon receiving CFDA approval, be sold over the counter in the PRC at dispensers, pharmacies or retail outlets without requiring a prescription by a medical practitioner
"phase I clinical trials"	phase I clinical trials aim to test the safety and determine a safe dose range of a new drug product for the first time in a small group of people
"phase II clinical trials"	phase II clinical trials test the new product on a larger group of people in order to understand the effectiveness of the product and to further evalute its safety
"phase III clinical trails"	phase III clinical trials test the new drug product on large group of people to confirm its effectiveness, monitor side effects compare it to commonly used treatment, and collect information that will allow the drug to be used safely
"phase IV clinical trials"	phase IV clinical trials only apply after a product has been granted a marketing licence to collect information on the drug's effect in various populations and any side effect associated with long term use
"Provincial List of Essential Drugs"	a list of drugs promulgated by provincial authorities to promote essential medicines to be sold to consumers at fair prices and to ensure equal access to basic drugs by the general public
"Provincial Medical Insurance Drugs Catalogue"	the basic medical insurance, work injury insurance and maternity insurance drugs catalogue, issued by the local agency of human resources and social security of a province, municipality or autonomous region
"PVC"	polyvinyl chloride, a type of polymer materials with wide usages including medicine packaging
"rheumatism"	general medical conditions relating to a person's joints and/or connective tissue
"RNA"	ribonucleic acid

"tablets"	a form in which medicines may be delivered for oral ingestion, produced by mixing extracted active medicinal ingredients with supplemental materials or powdered medicines
"traditional Chinese medicines"	medicines whose clinical function and application are expressed in terms of Chinese medicine theories originated from traditional medical practices in China and which are applied in accordance with Chinese medicine theories
"Type 1 diabetes"	Type 1 diabetes results from the autoimmune destruction of the insulin-producing beta cells in the pancreas. The subsequent lack of insulin leads to increase blood and urine glucose. This form of diabetes was previously referred to as "insulin-dependent diabetes mellitus" (IDDM) or "juvenile diabetes". The cause of Type 1 diabetes is currently unknown
"Type 2 diabetes"	Type 2 diabetes is a metabolic disorder that is characterised by hyperglycemia (high blood sugar) in the context of insulin resistance and relative lack of insulin. Excessive body weight and insufficient exercise are thought to be primary causes of type 2 diabetes
"viral diseases" or "viral infections"	occur when a patient's body is invaded by viruses. There are various forms of viral diseases with one of the most common type of viral disease being the common cold, which is caused by a viral infection of the upper respiratory tract
"virus"	is a small infectious agent that replicates only inside the living cells of other organisms
"WHO Model List of Essential Medicines"	a list of essential medicines published by the WHO

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures and initiatives to implement these strategies;
- the future competitive environment for the PRC pharmaceutical industry;
- our dividend policy;
- any capital expenditure plans and future financial position;
- our operations and business prospects, including development plans for our existing and new businesses, products and services;
- changes in the regulatory environment, including new developments in laws, rules and regulations applicable to us, as well as the general industry outlook for the PRC or global insurance industry; and
- future developments in the PRC healthcare pharmaceutical industries.

The words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "seek," "will," "would," and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth under the section headed "Risk Factors" in this prospectus and the following:

- general business prospects under economic and political conditions, including macroeconomic policies of the PRC government;
- laws, rules and regulations of the PRC government regarding the pharmaceutical industry;
- future developments, trends and conditions in the pharmaceutical industry, both within the PRC and globally;
- the amount and nature of, and potential for, future development of our business, including through both organic growth and through third party strategic transactions such as acquisitions and joint ventures;
- our strategies, plans, objectives and goals, and our ability to successfully implement the same;

- our future debt levels and capital needs;
- changes to regulatory or operating conditions in the markets in which we operate;
- our ability to reduce costs;
- our dividend policy;
- capital market developments;
- the actions and developments of our competitors; and
- certain statements in "Financial Information" with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

Subject to the requirements of applicable laws, rules and regulations, we do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section.

In this prospectus, statements of or references to our intentions or that of any of the Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in the H Shares being offered in the Global Offering. You should pay particular attention to the fact that we are incorporated in the PRC and our business and operations are conducted in the PRC. We are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, results of operations and financial condition could be materially and adversely affected if any of the risks described below occur. The trading price of our H Shares could decrease due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, see the section headed "Regulatory Overview", Appendix IV – "Summary of Principal Legal and Regulatory Provisions" and Appendix V – "Summary of the Articles of Association".

There are certain risks and uncertainties involved in our operations and many of these are beyond our control. We have categorised these risks and uncertainties as follows: (i) risks relating to our business and industry; (ii) risks relating to conducting business in the PRC; and (iii) risks relating to the Global Offering and our H Shares.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Our ability to manufacture and sell our leading product, Kewei, depends on a number of patents that are licensed from Oseltamivir Phosphate Licensor. The patents in relation to oseltamivir phosphate will begin to expire in February 2016.

Our ability to manufacture and sell our leading product, Kewei, depends on a number of patents that are licensed from Oseltamivir Phosphate Licensor. We understand that these oseltamivir phosphate patents will begin to expire in February 2016. In relation to our current licence with Oseltamivir Phosphate Licensor, the last relevant patent relating to oseltamivir phosphate will expire in 2024. Three of the eight licensed patents that claim the oseltamivir phosphate compound will soon expire with two in February 2016 and one in August 2017, while the other five licensed patents relate to production processes that we may or may not need in the future.

With the expiry of oseltamivir phosphate patents beginning from February 2016, other pharmaceutical companies may be able to manufacture and sell oseltamivir phosphate APIs and finished products, subject to such other pharmaceutical companies obtaining all necessary regulatory approvals and permits in the PRC. In our view, the time period for another pharmaceutical company to obtain the necessary government approvals and permits for the commercial production of oseltamivir phosphate may take at least three to five years (including passing all necessary clinical trials).

Therefore, while the expiry of oseltamivir phosphate patents is unlikely to have an immediate impact on our Group in the short term, our business in relation to Kewei may be affected in the longer term if another pharmaceutical company is able to obtain all the

necessary approvals and permits to manufacture and sell oseltamivir phosphate in the PRC. If so, this will erode our market share in the PRC for oseltamivir phosphate, which may materially and adversely affect our future sales volume of this product. There is no assurance that other pharmaceutical companies in the PRC will not begin manufacturing and selling oseltamivir phosphate in the future once the relevant patents relating to oseltamivir phosphate begin to expire.

Please see "Business – Our Products – Anti-viral products – Kewei (oseltamivir phosphate)".

The necessary approvals in relation to our upcoming products in our product pipeline may be delayed or may not be obtained.

As at the Latest Practicable Date, we had 18 key products in different stages of development. We have disclosed in this prospectus our current expectations or targets for the timing of the introduction of our key future products to the PRC market. However, the successful implementation of our product development programme is subject to significant business, economic and competitive uncertainties and contingencies, including, product development risk, the availability of funds, competition, regulation and may be re-evaluated from time to time based on current regulation, government policies and the continuing growth of the PRC pharmaceutical market.

The actual timing of the introduction of each of our future products to the PRC pharmaceutical market could vary significantly from our current estimates due to a number of factors, many of which are outside our control, including delays or failures in our pre-clinical studies or clinical trials, the lengthy approval process for new pharmaceutical products in the PRC and the uncertainties inherent in that regulatory approval process and delays in achieving manufacturing or marketing arrangements sufficient to commercialise our future products. In addition, clinical trials are inherently a lengthy and expensive process and there can be no assurance that our future products will meet the standards required to pass all necessary clinical trials.

Since July 2015, the CFDA has introduced certain measures to deal with its current backlog of drug applications. On 22 July 2015, the CFDA issued Notice No. 117 (CFDA notice in relation to self-review of clinical trials data) (國家食品藥品監督管理總局關於開展藥物臨床試驗數據自查核查工作的公告), which required the current applicants in respect of the existing 1,622 drug manufacturing or drug import applications to the CFDA to re-review the clinical trials data in respect of each such application. On 31 July 2015, the CFDA issued Notice No. 140 (Consultation on policy statement in relation to swiftly resolving the problem of congested drug applications) (關於徵求加快解決藥品註冊申請積壓問題的若干政策意見), which stated that it will apply the most stringent standard to review and approve the current drug applications. In addition, on 11 November 2015, the CFDA issued Notice No. 230 (Certain policies in relation to review and approval of drug applications) (關於藥品註冊審評審批若干政策的公告), which set out ten key points to be applied in the process of reviewing and approving the current drug applications, with an emphasis on the integrity of both preclinical

and clinical data, the effectiveness of the drug and the consistency between the original innovative version and the generic version of a product as demonstrated in comparability studies. The combination of Notice No. 117, Notice No. 140 and Notice No. 230 means that pharmaceutical companies will need to conduct self-review of their current drug applications to see if it meets the stringent standards of the CFDA, failing which, the CFDA would expect the relevant applicant to withdraw its drug application and to resubmit the relevant drug application when the requirements are met. By raising the standards required in respect of drug applications, this may delay our applications in relation to our future products or, in the worst case scenario, require us to withdraw our applications. Taking into account the above change in policy and regulatory affairs, we have since withdrawn seven of our drug applications. Separately, we have been notified by the CFDA that three of our drug applications will be returned to us due to insufficient data provided with the original drug applications.

If any of the necessary approvals in relation to our upcoming products in our product pipeline is delayed or not obtained, this can materially and adversely affect the timing of the introduction of such products to the PRC market (if at all). Thus, this can materially and adversely affect our turnover and profitability in the future.

Please see "Business – Future Products" and "Business – Research and Development – New Measures by the CFDA".

Our business could be adversely affected if we fail to maintain an effective distribution network for our pharmaceutical products.

Under our business model, we generally do not sell our pharmaceutical products directly to hospitals and other medical institutions. Instead, our pharmaceutical products are primarily sold to third-party distributors. Once our products have been sold and delivered to such third-party distributors, they may on-sell such products to local medical institutions and hospitals, who then provide the products to their patients. We also do not enter into long-term distribution agreements with our third-party distributors. Instead, we have a "buyer/seller" relationship with such third-party distributors, and such third-party distributors make orders for our pharmaceutical products on a case-by-case basis.

As at 30 June 2015, we have established relationships with 1,594 third-party distributors throughout the PRC. During the Track Record Period, we also sold APIs to certain pharmaceutical companies outside the PRC. During the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our sales to customers in the PRC were RMB248.9 million, RMB304.7 million, RMB440.7 million and RMB382.8 million, respectively, representing approximately 92.4%, 96.3%, 100.0% and 100.0% of our turnover for the respective periods. The remaining portion of our turnover for such periods was generated from overseas customers.

As we do not enter into any long-term distributor or exclusivity agreements with any of our third-party distributors, we cannot assure you that we will continue to maintain our existing distributor networks. In addition, such third-party distributors may enter into exclusive distribution arrangements with our competitors, which could materially and adversely affect our distributor network and our sales volume, turnover and prospects.

Furthermore, once we have sold a product, we have limited control over the manner in which third-party distributors, medical institutions, hospitals, doctors and other medical practitioners manage our products. Any inappropriate practices in respect of our products by such third-party distributors, medical institutions, hospitals, doctors and other medical practitioners may materially and adversely affect our business reputation, branding and future sales volume. Please refer to "Risk Factors – Our employees or distributors could engage in corrupt practices or other improper conduct that could harm our reputation and business."

For further information regarding our relationship with our distributors, please refer to "Business – Sales, Marketing and Distribution – Our distributor network".

Our ability to expand our product portfolio depends on our ability to acquire from other parties the rights to manufacture and sell new products, in particular, we will continue to rely on the Strategic Cooperation Agreement with Shenzhen HEC Industrial. We conduct limited research and development in-house in respect of new products.

Our research and development activities are mostly in relation to our existing products, our pipeline products that we already own, and their respective related manufacturing and production processes. Our strategy in relation to acquiring products that are not in our product pipeline is to acquire the right to manufacture and sell such new products from third parties. In this connection, we have entered into the Strategic Cooperation Agreement with Shenzhen HEC Industrial which provides us with a pre-emptive right to acquire certain products that are being developed or will be developed by HEC Research Group for an initial term of five years from the date of Listing which can be extended, at our option, for a further period of five years. We may also acquire the rights to new products from other third parties through strategic acquisitions and licences. Therefore, we will continue to rely on the Strategic Cooperation Agreement with Shenzhen HEC Industrial to acquire new products to our product portfolio.

In addition, the current licence agreement relating to oseltamivir phosphate patents was entered into between Oseltamivir Phosphate Licensor and Shenzhen HEC Industrial and the benefit of this licence agreement has been extended to us by Shenzhen HEC Industrial. Therefore, we will also continue to rely on Shenzhen HEC Industrial to extend the benefit of this licence agreement to us for the production of Kewei.

The development of a new product is a time-consuming process and is inherently uncertain. Therefore, there is no assurance that the relevant products that are subject to the Strategic Cooperation Agreement will pass the necessary clinical trials and obtain the relevant government approvals for manufacturing and selling in the PRC. If such products are not able to pass the relevant clinical trials or we do not believe that the necessary government approvals may be obtained, we may not acquire the rights to such products pursuant to the Strategic Cooperation Agreement. In addition, there is no assurance that we will be able to acquire the rights to new products from other third parties. For example, the price for such an acquisition may be unreasonable or we may not be able to identify new products being developed by third parties that are within the therapeutic areas that we wish to focus on.

Even if we are able to obtain the necessary rights to produce new products, there is no assurance that such new products would be commercially successful. We may also fail to develop and implement an effective marketing strategy with respect to such new products.

Consequently, such new pharmaceutical products may not be able to yield an appropriate return on the costs for acquiring such products. In this event, this may materially and adversely affect our business, profitability and prospects. In addition, as the term of the Strategic Cooperation Agreement is only for an initial period of five years from the date of Listing (which may be extended, at our option, for a further period of five years), there is no assurance that we will be able to continue to acquire the right to new products from the HEC Research Group after the expiry of this agreement, and there is no assurance that the Strategic Cooperation Agreement will be extended or renewed upon its expiry.

Please see "Business – Research and Development".

We currently depend on a limited number of key products. If we are unable to maintain the sales volumes, pricing levels and profit margins of our key products, our turnover and profitability could be materially and adversely affected.

Our leading product, Kewei (oseltamivir phosphate) (both capsules and granules forms), contributes a significant portion of our turnover. During the Track Record Period, sales of Kewei accounted for 3.4%, 22.2%, 44.1% and 70.7% of our turnover for the years ended 2012, 2013 and 2014 and for the six months ended 30 June 2015, respectively. Our top five key products, Kewei (both capsules and granules forms), Oumeining (telmisartan tablets), Xining (cetirizine hydrochloride tablets), Xinhaining (amlodipine besylate tablets) and Ertongshu (benzbromarone tablets), together accounted for 47.9%, 61.7%, 76.6% and 88.4% of our turnover for the years ended 2012, 2013 and 2014 and for the six months ended 30 June 2015, respectively. As our turnover has been, and we expect in the short to medium term will continue to be, concentrated in a number of key products, our business will be susceptible to factors that may adversely affect these products, including sales volume, pricing level, profit margin and production. A number of the risk factors set out below may also materially affect our key products. For example, certain products may be removed or excluded from the National Medical Insurance Drugs Catalogue, the Provincial Medical Insurance Drugs Catalogue or the National List of Essential Drugs, the demand of certain key products may be of a seasonal nature (such as Kewei) and, in the case of Kewei, the expiry of Oseltamivir Phosphate Licensor's patents relating to oseltamivir phosphate. Many of these factors are beyond our control.

In addition to the above, changes in the price of APIs or other raw materials in the production of our key products will affect the profit margins of such products, which could cause our business, revenue and profitability to decline. While we intend to continue to expand our product portfolio and diversify the sources of our turnover, there is no assurance that our top five key products will not continue to contribute a significant portion of our turnover. Please see "Risk Factors – Our ability to expand our product portfolio depends on our ability to acquire from other parties the rights to manufacture and sell new products, in particular, we will continue to rely on the Strategic Cooperation Agreement with Shenzhen HEC Industrial. We conduct limited research and development in-house in respect of new products." and "Business – Future Products".

If the current licence agreement with Oseltamivir Phosphate Licensor relating to certain oseltamivir phosphate patents is not renewed or terminated, this may materially and adversely affect our business, operations and financial position.

In March 2006, Oseltamivir Phosphate Licensor licensed the right to manufacture and sell oseltamivir phosphate products to institutions controlled by the PRC government in the PRC for pandemic prevention and control to one of our Controlling Shareholders, Shenzhen HEC Industrial. Shenzhen HEC Industrial is also entitled to extend the benefit of the licence agreement to our Company. Since obtaining the first licence, Shenzhen HEC Industrial has renewed the relevant licence from time to time. Please see "Business – Our Products – Anti-viral products – Kewei (Oseltamivir phosphate) – Our relationship with Oseltamivir Phosphate Licensor".

The term of the current licence agreement with Oseltamivir Phosphate Licensor (the "**Current Agreement**") will expire on 26 February 2016, with an option exercisable by Shenzhen HEC Industrial to extend the term up to 31 December 2017. Shenzhen HEC Industrial has undertaken to us: (a) to duly perform its obligations under the Current Agreement; (b) not to terminate the Current Agreement without our consent; (c) to exercise the option to extend the term of the Current Agreement up to 31 December 2017 upon our request; and (d) if requested by us, use its best endeavours to renew the Current Agreement after its expiry. As noted in the preceding risk factor, the three key patents relating to the oseltamivir phosphate compound will expire in February 2016 and August 2017.

However, if for whatever reason our Current Agreement is terminated or not renewed (whether as a result of the actions or omissions of Shenzhen HEC Industrial or its status or otherwise), this may affect our ability to manufacture and sell our Kewei products and may have a material adverse impact on our business, operations and financial position.

If our products are removed or excluded from the National Medical Insurance Drugs Catalogue, the Provincial Medical Insurance Drugs Catalogue or the National List of Essential Drugs, our sales and profitability in relation to the affected products could be materially and adversely affected.

Under the PRC national medical insurance programme, patients can obtain reimbursement of all or a portion of the cost of certain pharmaceutical products listed in the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs. According to the National Bureau of Statistics, approximately 536,413,000 and 570,726,000 people in China were enrolled in urban basic medical care insurance programmes as at 31 December 2012 and 2013, respectively. Consequently, whether a pharmaceutical product is included or excluded in the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs will materially affect the demand for such a pharmaceutical product in the PRC.

As at the Latest Practicable Date, we had 25 pharmaceutical products listed in the National Medical Insurance Drugs Catalogues. For the years ended 2012, 2013 and 2014 and for the six months ended 30 June 2015, these 25 products accounted for 79.8%, 77.6%, 66.9%

and 51.2% of our turnover, respectively. A list of such products are set out in "Business – Our Products – List of All of Our Current Products Manufactured and Sold in the PRC (Excluding APIs)". Our granules form of Kewei is not listed in the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs.

The PRC government considers a range of factors when deciding whether a pharmaceutical product would be listed in the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs, including, among other things, the results of clinical trials, frequency of use, effectiveness of the product and the prevalence of the disease or symptom that such a product is designed to treat or prevent. The pharmaceutical products listed in the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues and the National List of Essential Drugs are also reviewed and updated from time to time. There is no assurance that the Catalogued Products will continue to be, or any of our products in the future will be, listed in the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs. The entry into, and the removal from, the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs are beyond our control. The removal of any of our products from the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs, may have a material adverse impact on the demand of our products and in turn a material adverse effect on our sales volume, turnover and profitability.

Mutations to viruses (including mutations that develop increases drug resistance) may affect the effectiveness of our anti-viral products.

Anti-viral products are one of our key therapeutic areas. In particular, our Kewei product is used for the treatment and prevention of the anti-influenza virus (in particular, the influenza A virus and the influenza B virus). The effectiveness of our anti-viral products in relation to the treatment and prevention of viral infections may be adversely affected if the virus type for which our products target mutates or otherwise develop resistance against the relevant products (or the chemical compound associated with the relevant products). According to the CDC, mutations of viruses may happen over time or suddenly. For example, as a virus replicates, small genetic changes in the viral genome may occur. As these changes accumulate over time, the virus may become genetically different from the original virus type. In other cases, a mutation may occur suddenly when two different viruses infect a host at the same time which may lead to a combination of the two viruses, producing a new virus type.

The efficacy of our anti-viral products will be affected by mutated viruses or viruses that develop resistance against certain chemical compounds over time. If the effectiveness of our anti-viral products in respect of the treatment against the relevant virus type is diminished, it may reduce the demand for our anti-viral products and in turn, this may adversely affect the turnover generated from such anti-viral products.

If we are unable to win bids through the centralised tender processes conducted by PRC authorities, we will lose market share and our revenues and profitability could be adversely affected.

A number of the products we sell to our distributors are on-sold to public hospitals and owned or controlled by government authorities in the PRC. Each public medical institution owned by the government at the county level or higher or owned by state-owned enterprises, including state-controlled enterprises, must make substantially all of their purchases of pharmaceutical products through a centralised tender process. We submit bids in a tender process to supply our products to these institutions at specified prices. Our bids are generally considered on the basis of price relative to substitute products and their clinical effectiveness, as well as the quality of our products. If we are successful in winning bids in a centralised tender process, the relevant products will be sold to the public hospitals at the bid prices, which in part will determine the prices at which we can sell our products to our distributors.

The centralised tender process can create pricing pressure among substitute products or products that are perceived to be substitute products. Our sales volumes and profitability depends on our ability to successfully differentiate our products and price our bids in a manner that enables us to succeed in the centralised tender processes at profitable levels. If we are unable to differentiate our products or are otherwise not successful in winning bids in the centralised tender processes at profitable levels in the future, we will lose the revenue associated with the sale of the affected products to the relevant PRC public hospitals.

We may fail to win bids in a centralised tender process due to various factors, including reduced demand for the relevant product, uncompetitive bidding price, the relevant product is perceived to be less clinically effective than competing products or our services or other aspects of our operations are perceived to be less competitive. If our products are not selected in the centralised tender processes in one or more regions, we will be unable to sell the relevant products to the public hospitals in those regions. This could materially and adversely affect our market share, revenues and profitability.

We rely on a stable supply of quality raw materials to manufacture our pharmaceutical products.

The production of pharmaceutical products is highly dependent on a stable supply of high-quality raw materials (mostly in the form of APIs). During the Track Record Period the unit costs of our raw materials remained generally stable.

Although from 1 June 2015, our products are no longer subject to retail price controls by the PRC government, whether we can raise the selling price of our products will depend on a number of factors. This may include the market demand for our products and its equivalents, the prevalence rates of the relevant disease, the supply of products that are similar or equivalent to our products and the effectiveness of our sales and marketing activities. If there is a significant increase in the costs of our raw materials in the future, the above factors may affect our ability to pass on such increased costs to our customers. In turn, this may materially and adversely affect our gross profits and gross margins for such products, as well as our business and profitability.

We do not have long-term supply contracts with most of our suppliers and cannot assure you that our existing suppliers will continue to supply materials to us at prices and on terms and conditions that are commercially acceptable to us. In addition, the availability and market price of these raw materials may be affected by factors beyond our control, such as weather conditions, natural disasters or a surge in demand from other sectors. If our supply of raw materials is disrupted, this may adversely affect our production processes which may, in turn, cause us to fail to produce sufficient volume of products to meet our contractual obligations with our customers.

The quality of raw materials is vital to our manufacturing processes. If any raw materials fail to meet our standards or contains defects, impurities or other harmful substances and we do not detect such failures, defects, impurities and other harmful substances, our pharmaceutical manufacturing process and our finished products could be materially and adversely affected. We cannot assure you that there will not be any quality problems with the raw materials that are supplied to us by our suppliers in the future, and the occurrence of such problems may result in regulatory or legal actions against us, which could materially and adversely affect our Company's reputation, business, financial condition and profitability.

We are subject to risks associated with quality issues that may arise in connection with our pharmaceutical products during post-production processes.

Certain post-production processes, including transportation, storage, warehousing and usage, may adversely affect the quality of our pharmaceutical products. We generally rely on transport operators for delivery of our products. Delivery disruptions for various reasons beyond our control, including weather conditions, political turmoil, social unrest and strikes, could lead to delayed deliveries. The nature of pharmaceutical products may also mean that poor handling or storage by pharmacies, hospitals, patients or transport operators could result in damage to our products, including contamination or degeneration. For example, prolonged exposure to heat or sunlight may damage certain pharmaceutical products. Some of these processes are managed by third parties, over which we have limited control. In particular, once we have sold our products to distributors, we have limited control over how our distributors store and transport our products.

If, as a result of such post-production processes, our pharmaceutical products are deemed or proven to be unsafe, ineffective, defective or contaminated, this may result in product liability or product recalls. Even if a situation does not necessitate a product recall, we cannot assure you that product liability claims will not be asserted against us as a result. Any claims relating to the quality of our pharmaceutical products, regardless of their merit, could adversely affect our reputation, divert our time, resources and attention of our management, and result in material and adverse impact on our business, financial condition and results of operations.

Please see "Business – Sales, Marketing and Distribution – Returned Products Policy".

We may incur losses resulting from product liability or product recalls.

The nature of our business means that we can be exposed to certain risks relating to product liability and/or product recalls. Claims for product liability and/or product recalls may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or

contaminated or if we are alleged to have engaged in practices such as improper, insufficient or improper labelling of products or providing inadequate warnings or insufficient or misleading disclosures of side effects. There can be no assurance that we will not be subject to any claims for product liability and/or product recalls. If we are not able to successfully defend such claims, we may be subject to civil liability for damages or criminal liability. In addition, our manufacturing permits may be revoked if it is proven that our products are defective. Any claims for product recalls for one product may also lead to similar claims for our other products.

Product liability claims (whether or not it is ultimately found to be valid) may attract negative publicity to our Company and our products, which may materially and adversely affect our reputation, business, operations and prospects. It may also cause our end-customers and distributors to purchase alternative pharmaceutical products from our competitors. Even if we are able to successfully defend a claim for product liability or product recall, we may incur significant legal and administrative costs and expenses to defend such claim, and the process may require significant time and attention of our management team. We do not maintain product liability insurance against product liability claims.

Please see "Business – Sales, Marketing and Distribution – Returned Products Policy".

The existence of counterfeit pharmaceutical products in the PRC pharmaceutical market may damage our brand and reputation and have a material adverse effect on our business, financial condition, results of operations and prospects.

Counterfeit pharmaceutical products have historically been a problem in many developing countries, such as the PRC. Such counterfeit products may be manufactured without proper licences or approvals, manufactured without meeting the necessary standards and quality or may contain fraudulent or misleading labelling. Counterfeit pharmaceutical products are often sold at a lower price compared to authentic pharmaceutical products. In many cases, such counterfeit pharmaceutical products are physically very similar (as to the colour and shape of the product, the labelling and the packaging) to their authentic counterparts. Such counterfeit pharmaceutical products may erode the sales volume of the authentic pharmaceutical product, such as our own products.

Separately, counterfeit pharmaceutical products may not have the same chemical composition as our products. This may cause them to be less effective than our products or entirely ineffective for the treatment of the relevant condition or disease. In extreme cases, counterfeit pharmaceutical products may contain dangerous or harmful substances that could lead to severe side effects or the death of the relevant patient. This could expose us to negative publicity, reputational damage, fines and other administrative penalties and may even result in litigation against us if an end-user mistakenly purchased a counterfeit pharmaceutical product in the belief that such a product was manufactured by us.

In addition, the appearance of counterfeit pharmaceutical products, products of inferior quality and other unqualified products in the healthcare markets in recent years from time to time may reinforce the negative image in general of all pharmaceutical products manufactured

in the PRC among consumers and may harm the reputation and brand names of PRC pharmaceutical companies. As a result of these factors, the continued proliferation of counterfeit pharmaceutical products in the market could affect our sales volume, damage our business reputation and brand names for the relevant products and expose us to potential liability claims.

Although we are not aware that counterfeit versions of our products were sold in the PRC, we cannot assure you that there will not be any counterfeit versions of our pharmaceutical products in the future, and we cannot assure you that we can prevent such counterfeit versions of our pharmaceutical products to be sold in the PRC or other markets.

We may be involved in intellectual property proceedings or disputes initiated by us or by third parties.

From time to time, we may make claims or initiate proceedings against third parties to establish or defend our intellectual properties (such as patents, copyrights or trademarks). Similarly, other third parties may make claims or initiate proceedings against us to establish or defend their intellectual properties.

The risk of being subject to such intellectual property proceedings or disputes will increase as we continue to expand our operations and diversify our product portfolio. In particular, due to the confidential nature of PRC patent applications and the numerous patent applications currently under review in the PRC, we may not be able to determine whether any of our products, processes and other related matters infringe upon the rights of others (and vice versa). In particular, under PRC patent law, the term of patent protection starts from the date the patent was filed, instead of the date it was issued. Therefore, the priority in any of our PRC patent applications may be defeated by third-party patent applications published on a later date if the applications for such patents were filed prior to our own and the technologies underlying such patent applications are the same as or substantially similar to ours. In such a case, a third party with an earlier application may require us to license its patented technology for a fee or bring proceedings against us to prevent us from infringing that third party's intellectual property.

Any such proceedings or disputes may result in significant legal and administrative costs and expenses. In addition, it may divert management's attention away from their normal duties. In the event that a claim made by us is unsuccessful or a claim against us is successful, we may be required to pay compensation or costs to the relevant third party or pay a fee to the relevant third party for the continuing use of such intellectual property. Such fee may significantly increase the cost of our operations, and if such costs are not commercially feasible, we may have to discontinue the relevant business operations that had infringed the relevant third party intellectual property. There is no assurance that we will not be subject to any intellectual property proceedings or disputes in the future.

The PRC pharmaceutical manufacturing industry is highly regulated, and any changes to the regulatory framework could materially and adversely affect our business and operations.

The PRC pharmaceutical manufacturing industry is highly regulated. We are regulated by various national, regional and local regimes in various aspects of our operations. These may include obtaining certain authorisation and certification requirements in respect of manufacturing, sales and distributions and environmental and safety. As the PRC pharmaceutical manufacturing industry continues to develop and expand, the PRC government may introduce new laws, regulations and rules to regulate this industry. Such new laws, regulations and rules may increase the costs of compliance, which could materially and aversely affect our business, financial condition and operations.

We are also subject to periodic inspections, reviews or audits by various government departments and agencies (in particular, in respect of GMP and GSP approvals). In the event that we fail any such inspections, review or audits, we may need to incur additional costs and expenses to rectify any relevant adverse findings in such inspections, review or audits or, in the extreme case, we may need to suspend or terminate part of our manufacturing and production processes. Any such occurrence may materially and adversely affect our reputation, business, profitability and operations.

From 1 June 2015, pursuant to the Notice Regarding Reforms to the Price of Medical Product (關於印發推進藥品價格改革意見的通知) which was jointly published by NDRC, NHFPC, MOHRSS, MOIIT, MOF, MOFCOM and CFDA on 4 May 2015, the PRC government has abolished all price controls regarding pharmaceutical products other than in relation to anaesthetic drugs and certain psychotropic drugs. Therefore, from 1 June 2015, the retail prices of our products would be determined by market forces, free from any price controls by the PRC government. This could lead to fluctuations to the retail prices of our products as such prices may be adjust due to market forces.

We are subject to certain PRC environmental and safety regulations; failure to comply with such regulations or changes in such regulations may materially and adversely affect our business operations, and we may be exposed to liability and potential costs for compliance.

We are subject to PRC laws, rules and regulations concerning environmental and safety protection, including in relation to the discharge of gaseous waste, liquid waste and solid waste, the disposal of hazardous substances during our manufacturing processes, noise pollution and the safety of our workers during the manufacturing process, and we will continue to be subject to such laws, rules and regulations in the future.

From time to time, government authorities may inspect our premises and manufacturing facilities to assess our compliance with such laws, rules and regulations. There can be no assurances that we will be able to comply fully at all times with such applicable environmental and safety laws, rules and regulations. Any violation of these laws, rules or regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our production facilities and obligations to take corrective measures.

In addition to the above, the PRC government may amend such laws, rules and regulations to impose a more stringent standard. If there is any such amendment, we may need to incur additional costs and expenses (including additional capital expenditure) in order to comply with the amended standard. For example, we may be required to install, replace or upgrade our facilities and equipment or to undertake additional protective and safety measures for our employees. If these additional costs become prohibitively expensive, we may be forced to limit or cease certain of our pharmaceutical manufacturing business. In addition, if we become subject to any significant environmental-related liabilities, it could adversely affect our financial condition and results of operations.

Our business operations are largely dependent on our senior management and our ability to attract and retain talented employees.

The stability of our business operations and the continuing growth of our business depends on the continuing services of our senior management. In the industry in which we operate, industry experience, management expertise and strategic direction are crucial. If we lose the services of our senior management, we may not be able to recruit a suitable or qualified replacement and may incur further costs and expenses to recruit and/or train new employees. In particular, any sudden loss of a member of our senior management may disrupt our Company's strategic direction and leadership. As we continue to expand our business, we will need to continue to attract and retain experienced management personnel with extensive experience in the pharmaceutical manufacturing industry.

We believe that competition for experienced personnel in the PRC's pharmaceutical manufacturing industry is intense. Competition for such qualified personnel could lead to higher emoluments and other compensations in order to attract and retain such personnel. As a consequence this may lead to an increase in our operating costs. If we are not able to retain the members of our senior management required to achieve our business objectives, this may materially and adversely affect our business operations and our prospects.

As our production capacity increases upon completion of our expansion plans, the operation of our new production facilities may be materially and adversely affected by our ability to source sufficient personnel with relevant skills or raw materials at market prices and required quality, this may affect the operation of our new production facilities.

Our current expansion and upgrade plans comprise: (i) a new production line at Yidu Base Area No. 1; (ii) a new API production plant at Yidu Base Area No. 2; (iii) a new insulin production plant at Yidu Base Area No.3; and (iv) a new oral formulation production plant at Yidu Base Area No. 3. Please see "Business – Future Expansion and Upgrade Plan" for further details regarding these plans.

Each new production plant will require additional personnel with relevant skills to manage and operate the necessary pharmaceutical production processes. If we are unable to source a sufficient number of personnel with the relevant skills to operate such processes, our new production plants may not be able to operate at its designed capacity or, in extreme cases, unable to operate at all. A number of factors may affect our ability to source sufficiently qualified personnel, such as possible labour shortages and a lack of personnel with the relevant industry experience.

In addition, if we are not able to source raw materials at market prices or at our required quality in relation to our new production plants or production lines, we may not be able to ensure that our procurement of raw materials are in-line with our desired production levels in the future. This may not only materially and adversely affect the operation of our production facilities, but may also materially and adversely affect our ability to produce an adequate number of pharmaceutical products to meet our sales targets in the future.

Please see "Business – Future Expansion and Upgrade Plan – Managing sustainable growth" for further details.

Our Controlling Shareholders have substantial influence over our Company, and their interests may not be aligned with the interest of our other Shareholders.

Our Controlling Shareholders have substantial influence over our business and operations, including matters relating to management and policies, decisions in relation to acquisitions, expansion plans, business consolidation, the sale of all or substantially all of our assets, nomination of directors, dividends or other distributions, other significant corporate actions and the supply of certain raw materials and/or APIs to us. Following completion of the Global Offering, Parent Company will hold approximately 49.93% of our Shares. The concentration of ownership interests and the substantial influence of our Controlling Shareholders over our Company may discourage, delay or prevent a change in control of our Company, which could deprive other shareholders of an opportunity to receive a premium for their Shares as part of a sale of our Company and reduce the price of our Shares. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Subject to the Listing Rules, our Articles of Association and other applicable laws and regulations, our Controlling Shareholders will continue to have the ability to exercise their substantial influence over us and to cause us to enter into transactions or take, or fail to take, actions or make decisions which conflict with the best interests of our other Shareholders.

Our employees or distributors could engage in corrupt practices or other improper conduct that could harm our reputation and business.

Our employees or distributors may engage in corrupt practices or other improper conduct in relation to our products or business operations. Possible corruption or bribery practices in the PRC pharmaceutical industry may include providing kick-backs, bribes or other illegal gains or benefits to hospitals, medical institutions, doctors or other medical practitioners in return for favourable treatment or recommendation of certain medical products.

If our employees or distributors engage in such corrupt practices or improper conduct, this may harm our reputation or expose us to regulatory investigations. In such instance, this could materially and adversely affect our business and operations, as well as diverting senior management's attention away from their normal duties. In addition, it may also expose us to additional costs and liabilities (including fines from regulatory authorities).

If our employees or distributors are involved in criminal, investigational or administrative procedures for commercial bribery, it may also expose us to criminal liability. If we are found to be guilty of commercial bribery as a result of the improper conduct of our employees or distributors, we will be listed in the Adverse Records of Commercial Briberies by provincial Health and Family Planning Administrative Departments, which will have an adverse effect on our ability to sell our products in those provinces. According to the Regulations Regarding the Establishment of Adverse Records of Commercial Briberies in Medical Distribution Areas (關於建立醫藥購銷領域商業賄賂不良記錄的規定), if we are listed in the Adverse Records of Commercial Briberies, certain government medical institutions and certain other medical institutions that receives public funding will not be allowed to purchase our products for a period of two years. If we are listed in the Adverse Records of Commercial Briberies twice within a period of five years, all government medical institutions in the PRC and certain other medical institutions that receives public funding in the PRC will not be allowed to purchase our products for a period of two years.

We may from time to time become party to litigation and other legal disputes and proceedings that may adversely affect us.

As a result of our ordinary business operations, the Group may become a party to various litigation, legal proceedings, claims, disputes or arbitration proceedings from time to time. Any on-going litigation, legal proceedings, claims, disputes or arbitration proceedings may distract our senior management's attention and consume our time and other resources. In addition, even if we ultimately succeed in such litigation, legal proceedings, claims, disputes or arbitration proceedings, there may be negative publicity attached to such litigation, legal proceedings, claims, disputes or arbitration proceedings, which could materially and adversely affect our reputation and brand. In addition, if any verdict is awarded against us, we could be required to pay significant monetary damages, assume significant liabilities or suspend or terminate the manufacturing of certain products. As a result, this may have a material adverse effect on our business, operations and prospects.

Our historical dividends may not be indicative of our future dividend policy.

The amount of dividends that the Company may declare and pay in the future will be proposed by our Board of Directors and subject to the approval of our Shareholders at a shareholders' meeting. In considering the amount of dividends to declare and pay, we will consider a number of factors, including our distributable profits, financial condition, cash flow, expected future capital expenditure, return to our Shareholders, capital requirements, finance costs, the external financing environment and any other factors that the Directors may deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into from time to time. For the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, we declared and paid dividends of nil, nil, RMB390 million and nil, respectively. There is no assurance that our historical dividends may be indicative of our future dividend policy.

Our favourable tax treatment in the PRC may change or discontinue.

Our Company is qualified as a "High and New Technology Enterprise (高新技術企業)" under the relevant PRC tax rules and is entitled to a preferential enterprise income tax rate of 15%. Our Company's enterprise income tax rate during the Track Record Period was 15%. Our current status as a "High and New Technology Enterprise" will expire on 14 October 2017. If we are not able to renew our status as a "High and New Technology Enterprise" after our current status expires, our preferential enterprise income tax rate of 15% will also expire. Under the relevant PRC tax rules, the "High and New Technology Enterprise" qualification is subject to review and approval by the relevant approval authorities every three years.

Our wholly-owned subsidiary, Yichang HEC Pharmaceutical, is qualified as a Small Micro-Size Enterprise (小微企業) since 2014, and was entitled to a preferential income tax rate of 10% for the year ended 31 December 2014 and the six months ended 30 June 2015.

There can be no assurance that the current favourable tax policies available to our Company and its subsidiary will not be withdrawn or revoked by the PRC government or become less favourable. If the current favourable tax treatments are reduced or are no longer available in the future, our Group's business, financial condition and results of operations in the future may be materially and adversely affected.

We have historically received government grants for our research and development activities and there can be no assurances that we will continue to receive such grants.

We have historically received government grants in the form of subsidies for various research and development activities and projects. For the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our government grants recognised as income were RMB5.6 million, RMB4.4 million, RMB4.7 million and RMB2.2 million, respectively.

Our eligibility for government grants are dependent on a variety of factors, including relevant government policies, the availability of funding at different granting authorities and the granting authorities' assessments on our research and development projects. There can be no assurances that we will continue to receive similar levels of government grants, or at all. If we no longer receive government grants or the amount of government grants we receive decreases significantly, our revenue may decrease, which may affect our profit levels.

We may be subject to additional payments or penalties relating to contributions to social security insurance and housing provident funds.

We did not register with the relevant governmental authority to make contributions to the relevant social security insurance and housing provident funds for certain employees during the Track Record Period and up to June 2015 for the following reasons: (i) certain employees voluntarily asked the Company not to make the relevant contributions and had themselves contributed the contributions to the relevant social security insurance and housing provident

funds and (ii) the relevant contributions were made by our Controlling Shareholders or affiliates of our Controlling Shareholders on behalf of the Company. Since June 2015, we have rectified our practices and have been making adequate contributions to all of our employees for their social security insurance and housing provident funds in accordance with the applicable PRC laws and regulations.

As advised by our PRC legal advisers, according to the applicable PRC laws and regulations, the obligation to make contributions to the social security insurance and housing provident funds is on the Company and cannot be delegated to the employees or other affiliated companies of the Company. Therefore, although the Company believes that required amount of the social security insurance and housing provident funds contributions in respect of the affected employees have been made, the Company has not discharged its legal obligations under the relevant PRC laws and regulations as such contributions should have been made by the Company itself.

A failure in making adequate contributions for employees' social security insurance may give rise to a daily default interest rate of 0.05% and a maximum fine of no more than three times of the unpaid contribution amount. In respect of the housing provident fund contributions, if any competent authority is of the view that the housing provident fund contributions we made could not satisfy the requirements under the relevant PRC laws and regulations, it can order us to make the outstanding balance to the relevant local authorities within a given period.

As at the Latest Practicable Date, we had not been subject to any penalty from the relevant labour authorities in relation to social security insurance and housing provident funds. As advised by our PRC legal advisers, if the relevant employees bring a complaint before the relevant labour authorities, we may be required to pay the arrears amount in full and pay delay penalties. If we are required to make additional payments in relation to such social security insurance and housing provident funds contributions, our operating expenses will increase and consequently could adversely affect our financial condition and results of operations. Parent Company has also undertaken to indemnify us against any losses or penalties suffered by any member of our Group, arising out of or in connection with the contributions to social security insurance and housing provident funds.

Please see "Business – Legal and Compliance – Non-compliance Incident in relation to Social Security Insurance and Housing Provident Funds Contributions".

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Substantially all of our assets are located in the PRC, and most of our revenue is sourced from the PRC. Accordingly, our business, results of operations, financial condition and prospects will be affected by any adverse changes to the PRC's economic, political and legal developments.

Our operating assets are mostly located in, and our revenue is mostly sourced from, our operations in the PRC. Therefore, our business, results of operations, financial condition and prospects are subject to the PRC's economic, political and legal developments. The PRC economy is different from the economies of other developed countries in terms of government intervention, development, structure, control of foreign exchange and resource allocation.

China's economy has been transitioning from a planned economy to a more market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures to emphasize the utilization of market forces in economic development. We cannot predict whether changes in the PRC's political, economic and social conditions, as well as its laws, regulations and policies, will have any material adverse effect on our current or future business, results of operations, financial condition and prospects.

Changes in foreign exchange regulations and future movements in the exchange rate of the Renminbi may adversely affect our ability to pay dividends and our business.

Current foreign exchange regulations have reduced the PRC government's foreign exchange control on routine transactions under the current account, including trade and service-related foreign exchange transactions and payment of dividends. Under the existing foreign exchange regulations in the PRC, following completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE (subject to complying with certain procedural requirements). However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, foreign currency transactions under our capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing or to obtain foreign exchange for capital expenditures.

A small portion of our revenue is derived from outside the PRC during the Track Record Period. Such revenues are sourced through the sale of APIs to pharmaceutical companies outside the PRC, including Bangladesh, Pakistan, India, Argentina, and South Korea. These revenues are mostly denominated in US dollars. As a result, any fluctuations in the exchange rates of Renminbi against foreign currencies can affect our business.

In 2005, the PRC government changed its policy of pegging the value of the Renminbi to the US dollar. Under the current policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall within stipulated ranges against different currencies each day. This change in policy has resulted in an appreciation of the value of the Renminbi against the US dollar of approximately 30% from July 2005 to June 2013. In August 2015, the PBOC cut its daily reference rate by 1.9%, which triggered a devaluation of the Renminbi by more than 2%.

We cannot predict whether the PRC government may change its policies that have and effect on the exchange rate of the Renminbi, as well as when and how Renminbi exchange rates may change going forward.

The PRC legal system is in the process of continuous development and has inherent uncertainties that could limit the legal protection available to you.

We are a company incorporated under PRC law, and substantially all of our businesses are conducted in China. On this basis, our business operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade, with the aim of developing a comprehensive system of commercial laws. However, because these laws and regulations are still evolving, and because of the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a degree of uncertainty.

The latest changes to the PRC Company Law came into effect on 1 March 2014 and the latest changes to the PRC Securities Law came into effect on 31 August 2014. In addition, the PRC Securities Law is still in the process of being reviewed. As a result, the State Council and the CSRC may revise the Special Regulations and the Mandatory Provisions and adopt new rules and regulations to implement and reflect the amendments to the PRC Company Law and the PRC Securities Law. We cannot assure you that any revision of the current rules and regulations or the adoption of new rules and regulations by the State Council and the CSRC will not have a material adverse effect on the rights of holders of H Shares.

As we are a PRC company offering and listing its H Shares outside the PRC, we are subject to the Special Regulations and the Mandatory Provisions. Upon the listing of the H Shares on the Stock Exchange, the Listing Rules will become the principal basis for the protection of the rights of holders of H Shares. The Listing Rules impose particular standards of conduct and disclosure on our Company, our Directors, our Supervisors and the Controlling Shareholders of our Company. As far as we are aware, the PRC has not published any case report that involves a request by a holder of H shares of a PRC company to exercise his or her rights under any constitutional document of a PRC joint stock limited liability company, the PRC Company Law or any regulatory provisions of the PRC applicable to PRC joint stock limited liability companies.

Our Articles of Association provide that disputes between holders of H Shares and our Company, our directors, supervisors or senior officers or holders of Domestic Shares arising out of any rights or obligations concerning our affairs conferred or imposed thereupon by our Articles of Association or the PRC Company Law and related rules and regulations are to be resolved through arbitration. Our Articles of Association further provide that any arbitral award will be final, conclusive and binding on all parties. A claimant may elect to submit a dispute to an arbitration organisation in Hong Kong or the PRC. Awards that are made by PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards may be recognised and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, to our knowledge, no action has been brought in the PRC by any holder of H Shares to enforce an arbitral award, and we cannot assure you that any action brought in the PRC by any holder of H Shares to enforce a Hong Kong arbitral award would succeed.

Our business may be affected if we operate in violation of the PRC Anti-Monopoly Law.

The PRC Anti-Monopoly Law (中華人民共和國反壟斷法), which attempts to prevent monopolistic activities and protect fair competition in the PRC, became effective on 1 August 2008. Pursuant to the PRC Anti-Monopoly Law, business entities are prohibited from engaging in monopolistic behaviour, entering into monopolistic agreements, abusing a dominant market position or pursuing consolidations which exclude, restrict or potentially inhibit competition. Monopolistic agreements refer to agreements which eliminate or restrict competition, such as agreements which fix the price of commodities for resale to a third party, or restrict the minimum price for resale to a third party. The PRC government has intensified the enforcement of the PRC Anti-Monopoly Law in recent years, which has affected a diverse range of sectors. Under the PRC Anti-Monopoly Law, an entity that enters into monopolistic agreements or abuses its dominant market position may be subject to penalties, including confiscation of illegal gains and fines ranging from 1% to 10% of its revenue for the preceding year. If an entity pursues consolidation, it may be forced to terminate the consolidation, divest its shares and assets or businesses within a limited period of time or other unwind its consolidation.

Our operating flexibility and business expansion through mergers and acquisitions of other competitors may also be subject to strict examination and approval by Ministry of Commerce ("**MOFCOM**"), the main authority in charge of reviewing anti-monopoly issues related to business combinations. We may be subject to substantial fines and other penalties in the event of non-compliance with the PRC Anti-Monopoly Law. Our business model, revenues, shareholder value and reputation may be materially and adversely affected in these circumstances.

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

Our Company is incorporated under the laws of the PRC, and substantially all of our operations and assets are located in the PRC. As a result, it may be difficult or impossible for investors to effect service of process on our Company. Moreover, the PRC does not have treaties with most other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in the PRC of the judgment of a non-PRC court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Provided that certain conditions are satisfied, judgments obtained in a Hong Kong court may be enforced in the PRC pursuant to 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 (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Although this arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Furthermore, an original action may be brought in the PRC against our Company or the Directors only if the actions are required to be arbitrated by PRC law and upon satisfaction of the conditions for institution of a cause of action pursuant to the PRC Civil Procedure Law. As a result of the conditions set forth in the PRC Civil Procedure Law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in the PRC in this manner.

Natural disasters, acts of war, terrorist attacks, the occurrence of epidemics and other catastrophic events could affect our business, our financial condition and prospects, especially if such events occur in Yidu.

Natural disasters, acts of war, terrorist attacks, the occurrence of epidemics and other catastrophic events that are beyond our control may significantly disrupt our ability to adequately staff our business, distribute our products and may generally disrupt our operations and services. In addition, natural disasters and health and security hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business, financial condition and prospects. As all of our production facilities are located in Yidu, Hubei, China, the occurrence of any such events in Yidu is likely to have a material adverse affect on our business, financial conditions and prospects.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR H SHARES

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

Prior to the Global Offering, there has been no public market for our H Shares. The initial Offer Price range issued to the public for our H Shares was the result of negotiations between our Company and 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 Stock Exchange. We cannot assure you that the Global Offering will result in the development of an active, liquid public trading market for our H Shares. In addition, the price and trading volumes of our H Shares may be volatile. Factors such as variations in our revenue, earnings and cash flows or other developments in our business or industries or the financial markets may affect the volume and price at which our H Shares will trade.

Future sales or perceived sales of substantial amounts of our securities in the public market, including any future public offering in the PRC or re-registration of Shares held on our Domestic share register into H Shares, could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future and may result in dilution of your shareholdings.

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 or the perception that such sales or issuances

may occur. Future sales, or perceived sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital in the future at a time and at a price that we deem appropriate. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings. A certain amount of our Shares currently outstanding will be subject to contractual and/or legal restrictions on resale for a period of time after completion of the Global Offering. See "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Undertakings to the Stock Exchange pursuant to the Listing Rules." After these restrictions lapse or if they are waived or breached, future sales, or perceived sales, of substantial amounts of our Shares, or the possibility of such sales, by us could negatively impact the market price of our H Shares and our ability to raise equity capital in the future.

In addition, subject to the approval of the State Council securities regulatory authority, all of our Domestic Shares may be converted into H Shares, and such converted Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the converted Shares on an overseas stock exchange must also comply with the regulatory procedures, rules and requirements of such stock exchange. No class shareholder voting is required for the listing and trading of the converted Shares on an overseas stock exchange. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering may not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, shares currently held on our domestic share register may be traded, after the conversion, in the form of H Shares on the Stock Exchange after one year of the Global Offering, which could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

Because the initial public Offer Price per H Share is higher than the net tangible book value per H Share, purchasers of our H Shares in the Global Offering will experience immediate dilution.

The Offer Price of our H Shares is higher than the net tangible book value per Share of our H Shares immediately prior to the Global Offering. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets value to HK$5.56 per H Share (assuming an Offer Price of HK$16.10 per H Share, being the mid-point of our Offer Price range of HK$13.70 to HK$18.50 per H Share, and no exercise of the Over-allotment Option) and existing shareholders will receive an increase in the net tangible book value per share of their H Shares. If we issue additional H Shares in the future, purchasers of our H Shares may experience further dilution.

Certain information, forecasts and statistics contained in this prospectus are derived from publicly available official sources and from PICO, which have not been verified by us.

This prospectus contains information, forecasts and statistics related to, among other things, the PRC, the PRC economy and the pharmaceutical industry in the PRC. Such information, forecasts and statistics have been derived from various publicly available government and official sources and from PICO, an independent market consultant, which we

commissioned. We believe that the sources of such information, forecasts and statistics are appropriate sources for such information, forecasts and statistics and have taken reasonable care in the extraction and reproduction of such information, forecasts and statistics. We have no reason to believe that such information, forecasts or statistics are false or misleading in any material respect or that any fact has been omitted that would render such information, forecasts or statistics false or misleading in any material respect. However, we have not independently verified such information, forecasts and statistics, and no representation is given as to their correctness, reliability or accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the information, forecasts and statistics in this prospectus may be inaccurate or may not be comparable to information, forecasts and statistics produced with respect to other economies. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case in other jurisdictions. Therefore, you should not unduly rely upon the information, forecasts and statistics contained in this prospectus.

In preparation for the Global Offering, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. The business operations of the Group are located in the PRC. All of our executive Directors and senior management members are based in the PRC as we believe it is more effective and efficient for our executive Directors and senior management to be based in a location where we have significant operations. We therefore do not, and in the foreseeable future will not, have a management presence in Hong Kong for the purpose of satisfying the requirement under Rules 8.12 and 19A.15 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

(a) we have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, namely Mr. TANG Xinfa and Ms. NG Wing Shan ("**Ms. Ng**"). The authorized representatives will act as our principal channel of communication with the Stock Exchange. The authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by the Stock Exchange by telephone, facsimile and/or email to deal promptly with any enquiries which may be made by the Stock Exchange. Each of the authorized representative is authorized to communicate on behalf of our Company with the Stock Exchange;

(b) each of the authorized representatives will have all necessary means to contact all the Directors promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters. We will implement a policy whereby:

    (i) each Director must provide his or her mobile phone number, office phone number, facsimile number and email address to these authorized representatives; and

    (ii) in the event that a Director expects to travel and or otherwise be out of the office, he or she will provide the phone number of the place of his or her accommodation to these authorized representatives;

(c) each Director must provide his or her mobile phone number, office phone number, facsimile number and email address to the Stock Exchange;

(d) all the Directors who are not ordinarily resident in Hong Kong have or can apply for valid travel documents to visit Hong Kong for business purposes and would be able to meet with the Stock Exchange upon reasonable notice; and

(e) we have appointed a compliance advisor pursuant to Rule 3A.19 of the Listing Rules to act as our additional channel of communication with the Stock Exchange and the representative(s) of the compliance advisor will be fully available to answer enquiries from the Stock Exchange. The compliance advisor will have access at all times to the authorized representatives, the Directors and the other senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or requests from the Stock Exchange in respect of our Company.

WAIVER IN RELATION TO CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which would constitute continuing connected transactions under the Listing Rules upon Listing. Accordingly, we have applied to the Stock Exchange for and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirements set out in Chapter 14A of the Listing Rules for such continuing connected transactions. Further details of such continuing connected transactions are set out in "Connected Transactions".

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the company secretary of our Company must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable:

- a member of the Hong Kong Institute of Chartered Secretaries;
- a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Cap. 159 of the Laws of Hong Kong)); and
- a certified public accountant (as defined in the Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong)).

We have appointed Mr. PAN Sanxiong ("**Mr. Pan**") as one of our joint company secretaries. Mr. Pan has a thorough understanding of the operation of the Board and our Company. Nonetheless, Mr. Pan lacks the qualification stipulated in Rule 3.28 of the Listing Rules and may not be able solely to perform the duties of company secretary. Therefore, we have appointed Ms. Ng as our other joint company secretary to provide assistance to Mr. Pan for an initial period of three years from the Listing Date.

Ms. Ng will work closely with Mr. Pan to jointly discharge the duties and responsibilities as company secretary and assist Mr. Pan to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. In addition, Mr. Pan will attend relevant professional trainings each year for no less than 15 hours to enhance and improve his knowledge of and familiarity with the Listing Rules and other relevant law, rules and regulations.

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rules 3.28 and 8.17 of the Listing Rules, which will be valid for an initial period of three years, provided that Ms. Ng is engaged as a joint company secretary and provides assistance to Mr. Pan during the three-year period. Upon the expiry of the initial three-year period, an evaluation will be carried out to determine whether the qualifications and experience of Mr. Pan can satisfy the requirements set out in Rule 3.28 of the Listing Rules. In the event that Mr. Pan has obtained relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules at the end of the said initial three-year period, the above joint company secretaries arrangement would no longer be necessary.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) (as amended) and the Listing Rules for the purpose of giving information to the public with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus.

The Directors confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

CSRC APPROVAL

The CSRC issued an approval letter on 24 September 2015 for the Global Offering and the making of the application to list our H Shares on the Stock Exchange. In granting such approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

THE HONG KONG PUBLIC OFFERING, UNDERWRITING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sole Sponsor, the Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to us and the Representative (on behalf of the Underwriters) agreeing on the Offer Price. The International Purchase Agreement relating to the International Offering is expected to be entered into on or around 18 December 2015, subject to the Offer Price being agreed. The Global Offering is managed by the Representative.

If, for any reason, the Offer Price is not agreed between us and the Representative (on behalf of the Underwriters), the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares is set out in the section headed "How to Apply for the Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

OVER-ALLOTMENT OPTION AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and stabilisation are set out in the section headed "Structure of the Global Offering" in this prospectus.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or Application Forms may not be used for the purpose of, and does not constitute an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the H Shares, including any H Shares which may be issued by us pursuant to the Global Offering and upon the exercise of the Over-allotment Option. Our Domestic Shares may be converted to H Shares after obtaining the approval of the CSRC or the authorized approval of the State Council.

Save as disclosed in this prospectus, no part of the Company's Share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the H Shares on the Stock Exchange are expected to commence on Tuesday, 29 December 2015. The H Shares will be traded in board lots of 200 H Shares each. The stock code of the Shares will be 1558.

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our H Shares and we comply with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

(i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Companies Ordinance, the Special Regulations and our Articles of Association;

(ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

(iii) agrees with us and each our Shareholders that our H Shares are freely transferable by the H Shares' holders thereof; and

(iv) authorizes us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

H SHARE REGISTER AND STAMP DUTY

All the H Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on the Company's H Share register of members maintained in Hong Kong. We will maintain the Company's principal register of members at our current registered office in China.

Dealings in the H Shares registered in the H Share register of our Company in Hong Kong will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the H Shares. In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required).

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of our H Shares will be paid to the Shareholders listed on the H Share register of our Company in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder of the Company.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of us, the Sole Sponsor, the Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the H Shares.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into HK dollars, of Renminbi amounts into US dollars and of HK dollars into US dollars at specified rates.

Unless we indicate otherwise, the translation of Renminbi into HK dollars, of Renminbi into US dollars and of HK dollars into US dollars, and vice versa, in this prospectus was made at the following rate:

RMB0.82561 to HK$1.0 (being the prevailing exchange rate on the Latest Practicable Date set by the PBOC)

HK$7.7526 to US$1.0 (being the prevailing exchange rate on 30 November 2015 set forth in the weekly statistical release of the Federal Reserve Board of the United States on the Latest Practicable Date)

No representation is made that any amounts in Renminbi, HK dollars or US dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including certain of our subsidiaries), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

DIRECTORS

Name	Position	Address	Nationality
Mr. TANG Xinfa (唐新發)	Chairman and non-executive Director	West Fourth Floor, Building 106, Huafa North Road, Futian District, Shenzhen, Guangdong Province, PRC	Chinese
Mr. ZHU Yingwei (朱英偉)	Non-executive Director	West Fourth Floor, Building 106, Huafa North Road, Futian District, Shenzhen, Guangdong Province, PRC	Chinese
Mr. JIANG Juncai (蔣均才)	Executive Director	West Fourth Floor, Building 106, Huafa North Road, Futian District, Shenzhen, Guangdong Province, PRC	Chinese
Mr. WANG Danjin (王丹津)	Executive Director	445-18 Caijia Street, Yuanbao District, Dandong, Liaoning Province, PRC	Chinese
Mr. MO Kit (毛杰)	Non-executive Director	Flat G, 13/F, BLK 1, Euston Court, 6 Park Road, Hong Kong	Chinese
Mr. CHEN Yangui (陳燕桂)	Executive Director	West Fourth Floor, Building 106, Huafa North Road, Futian District, Shenzhen, Guangdong Province, PRC	Chinese

Name	Position	Address	Nationality
Mr. TANG Jianxin (唐建新)	Independent non-executive Director	Room 202, Unit 2 Building 18, Luojiashan South Area 3, Wuchang District, Wuhan, Hubei Province, PRC	Chinese
Mr. FU Hailiang (付海亮)	Independent non-executive Director	No. 1, 2/F, 129-2 Jiangda Road, Jiang'an District, Wuhan, Hubei Province, PRC	Chinese
Mr. LEE Chi Ming (李志明)	Independent non-executive Director	Flat D, 5/F, BLK2, Mount Haven, 3 Liu To Road, Tsing Yi, NT, Hong Kong	Chinese

SUPERVISORS

Name	Position	Address	Nationality
Ms. HUANG Fangfang (黄芳芳)	Chairman of the board of Supervisors	West Fourth Floor, Building 106, Huafa North Road, Futian District, Shenzhen, Guangdong Province, PRC	Chinese
Ms. XUE Lian (薛蓮)	Employee representative Supervisor	4-6 Mingdu Shanshui Garden, Yuanlin Blvd., Lucheng Sub-district Office, Yidu, Hubei Province, PRC	Chinese
Mr. LIN Jian (林健)	Supervisor	E25, Section E, Shahe Oriental Garden, Nanshan District, Shenzhen, Guangdong Province, PRC	Chinese

For further information regarding our Directors and Supervisors, see "Directors, Supervisors and Senior Management".

PARTIES INVOLVED

Sole Sponsor	China International Capital Corporation Hong Kong Securities Limited 29th Floor, One International Finance Center 1 Harbour View Street Central Hong Kong
Representative	China International Capital Corporation Hong Kong Securities Limited 29th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong
Joint Global Coordinators	China International Capital Corporation Hong Kong Securities Limited 29th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong ICBC International Capital Limited 37/F, ICBC Tower 3 Garden Road Central Hong Kong CMB International Capital Limited Units 1803-4 18/F Bank of America Tower 12 Harcourt Road Central Hong Kong

Joint Bookrunners

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CMB International Capital Limited
Units 1803-4
18/F Bank of America Tower
12 Harcourt Road
Central
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ABCI Capital Limited
10/F Agricultural Bank of China Tower
50 Connaught Road Central
Central
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CCB International Capital Limited
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Central
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Nomura International (Hong Kong) Limited
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ABCI Securities Company Limited
10/F Agricultural Bank of China Tower
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Central
Hong Kong

CCB International Capital Limited
12/F CCB Tower
3 Connaught Road Central
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Legal advisers to the Sole Sponsor and the Underwriters	*as to Hong Kong law and U.S. law:* Slaughter and May 47th Floor, Jardine House One Connaught Place Central Hong Kong *as to PRC law:* Grandall Law Firm 22nd and 24th Floor Shenzhen Special Zone Press Tower 6008 Shennan Blvd. Shenzhen 518034 PRC
Reporting accountants	KPMG *Certified Public Accountants* 8/F, Prince's Building 10 Chater Road Central Hong Kong

Industry consultant	Guangzhou PICO Medical Information Co., Ltd. Room 1503, 1504 745 Dongfengdong Road Yuexiu District Guangzhou PRC
Receiving bank(s)	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong Wing Lung Bank Limited 16/F., Wing Lung Bank Building 45 Des Voeux Road Central Hong Kong Industrial and Commercial Bank of China (Asia) Limited 33/F, ICBC Tower 3 Garden Road, Central Hong Kong

Registered office	No. 38 Binjiang Road Yidu, Yichang Hubei Province, PRC
Headquarters and principal place of business in the PRC	No. 38 Binjiang Road Yidu, Yichang Hubei Province, PRC
Principal place of business in Hong Kong	18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Company's website	www.hec-changjiang.com (This website and the information contained on this website do not form part of this prospectus)
Joint company secretaries	Mr. PAN Sanxiong (潘三雄) Dongyangguang Scientific Park No. 368 Zhen'an Middle Road Chang'an County, Dongguan Guangdong Province, PRC Ms. NG Wing Shan (吳詠珊) (FCS, FCIS) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorized representatives	Mr. TANG Xinfa (唐新發) West Fourth Floor, Building 106 Huafa North Road Futian District, Shenzhen Guangdong Province, PRC Ms. NG Wing Shan (吳詠珊) 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

Remuneration and Appraisal Committee	Mr. FU Hailiang (付海亮) *(Chairman)* Mr. JIANG Juncai (蒋均才) Mr. TANG Jianxin (唐建新)
Audit Committee	Mr. TANG Jianxin (唐建新) *(Chairman)* Mr. LEE Chi Ming (李志明) Mr. TANG Xinfa (唐新發)
Nomination Committee	Mr. LEE Chi Ming (李志明) *(Chairman)* Mr. ZHU Yingwei (朱英偉) Mr. FU Hailiang (付海亮)
Compliance adviser	China International Capital Corporation Hong Kong Securities Limited
H Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal bank	China Construction Bank Co., Ltd. Qingjiang Branch 56 Changjiang Avenue Yidu Hubei Province, PRC

The information presented in this section is derived from the data and information provided by PICO, as well as various official or publicly available publications. The information derived from the data and information provided by PICO reflects estimates of the market conditions based on information from various sources. We believe that the sources of such information are appropriate sources of 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 in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, the Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, any of the Underwriters, any of our or their respective directors, officers or representatives or any other persons involved in the Global Offering, and no representation is given as to its accuracy.

All market share and ranking data provided by PICO are determined based on information extrapolated from sampling data on average retail prices and sales revenue of the relevant products in their respective markets.

OVERVIEW OF THE PRC HEALTHCARE MARKET

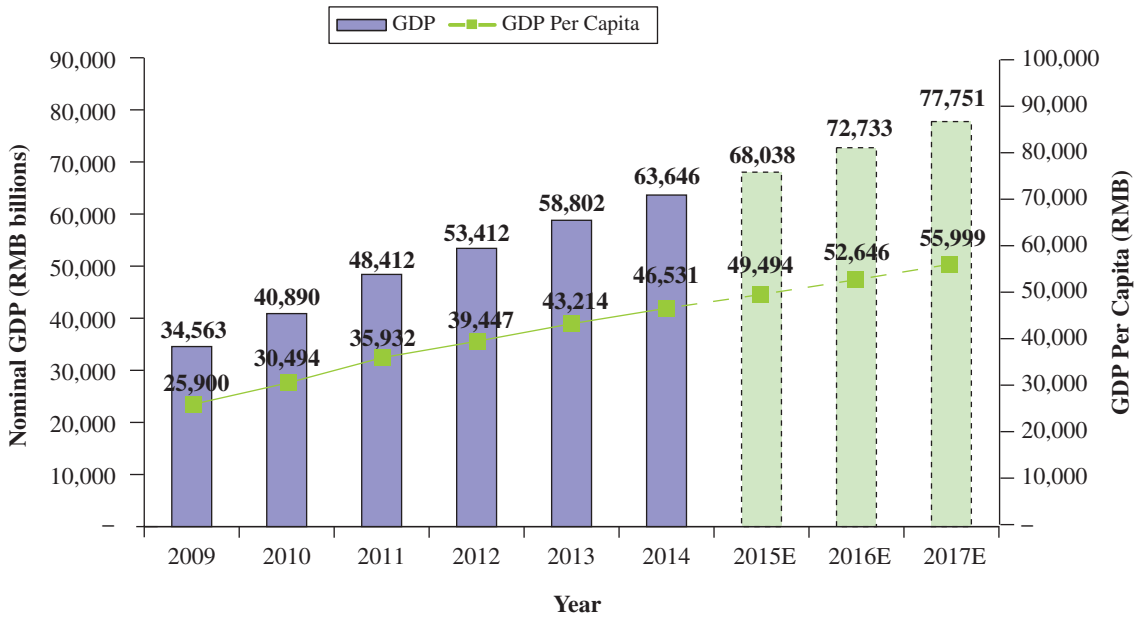
We predominantly operate in the healthcare industry in the PRC, which is a rapidly developing industry. We set out below the key factors affecting the PRC healthcare industry.

FACTORS AFFECTING THE GROWTH OF THE PRC HEALTHCARE INDUSTRY

Economic Growth in the PRC

The PRC economy is one of the fastest growing economies in the world. According to the National Bureau of Statistics, the nominal GDP of the PRC increased from RMB34,563.0 billion in 2009 to RMB63,646.3 billion in 2014. PICO forecasted that the nominal GDP of the PRC is expected to grow to RMB77,751.1 billion by 2017, representing an overall CAGR of 6.9% from 2015 to 2017. The chart below sets out the historical and forecasted growth of the nominal GDP of the PRC. According to the National Bureau of Statistics, the PRC's Per Capita GDP increased from RMB25,900 in 2009 to RMB46,531 in 2014, representing a CAGR of 12.4%. PICO forecasted that the PRC's Per Capita GDP is expected to grow to RMB55,999 by 2017, representing an overall CAGR of 6.4% from 2015 to 2017. The chart below sets out the historical and estimated growth of the PRC's Per Capita GDP from 2009 to 2017.

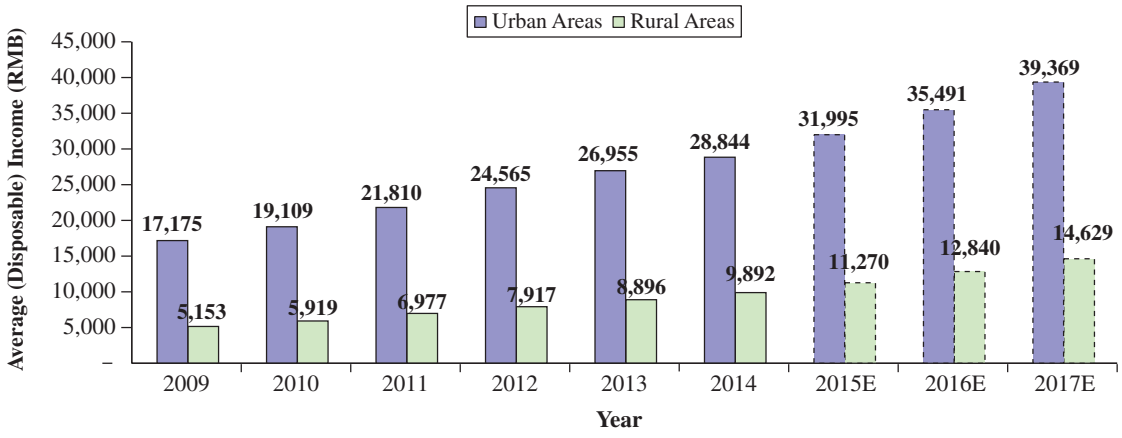
PRC Nominal GDP and Per Capita GDP 2009 to 2017E



Source: National Bureau of Statistics, PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

China is also experiencing growth in the income of its population. According to the National Bureau of Statistics, average disposable income in urban areas of the PRC increased from RMB17,175 in 2009 to RMB28,844 in 2014, representing a CAGR of 10.9%. Average income in the rural areas of the PRC increased from RMB5,153 in 2009 to RMB9,892 in 2014, representing a CAGR of 13.9%. According to PICO, average disposable income in urban areas of the PRC is forecasted to continue to grow to RMB39,369 by 2017, representing an overall CAGR of 10.9% from 2014 to 2017. Average income in rural areas of the PRC is forecasted to increase to RMB14,629 by 2017, representing an overall CAGR of 13.9% from 2015 to 2017. The chart below sets out the historical and estimated growth of average disposable income in urban areas of the PRC and average income in rural areas of the PRC.

Average Disposal Income in Urban Areas and Average Income in Rural Areas of the PRC 2009 to 2017E



Source: National Bureau of Statistics, PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

According to the National Bureau of Statistics, in the first three quarters of 2015, as the recovery of the world economy was weaker than expected, China faced increasing downward pressure on domestic economic development. The GDP of the first three quarters of 2015 was RMB48,777.4 billion, a year-on-year increase of 6.9 percent at comparable prices. However, according to PICO, demand for medicine is not sensitive to economic downward pressure, and the PRC government would generally assure funding for key spending areas such as healthcare. Therefore, PICO is of the view that the impact of an economic slowdown on the pharmaceutical industry in the PRC would be less significant compared to other industries in the PRC.

We believe that the increase in economic growth in the PRC, both as an absolute amount and on a per capita basis, will drive the further development of the PRC healthcare industry. In addition, we believe that the increase in the average disposable income of the PRC population in both urban and rural areas will also supplement the continued growth of the PRC healthcare industry.

Increasing Awareness of Healthcare and Healthcare Spending in the PRC

In comparison to other major countries, per capita healthcare spending in the PRC is relatively low. The table below sets out a comparison of per capita healthcare spending in the PRC, the United States, Germany, Japan, United Kingdom, South Korea, Brazil, Russia, and India from 2008 to 2013.

Per capita healthcare spending of certain countries from 2008 – 2013 (US$)

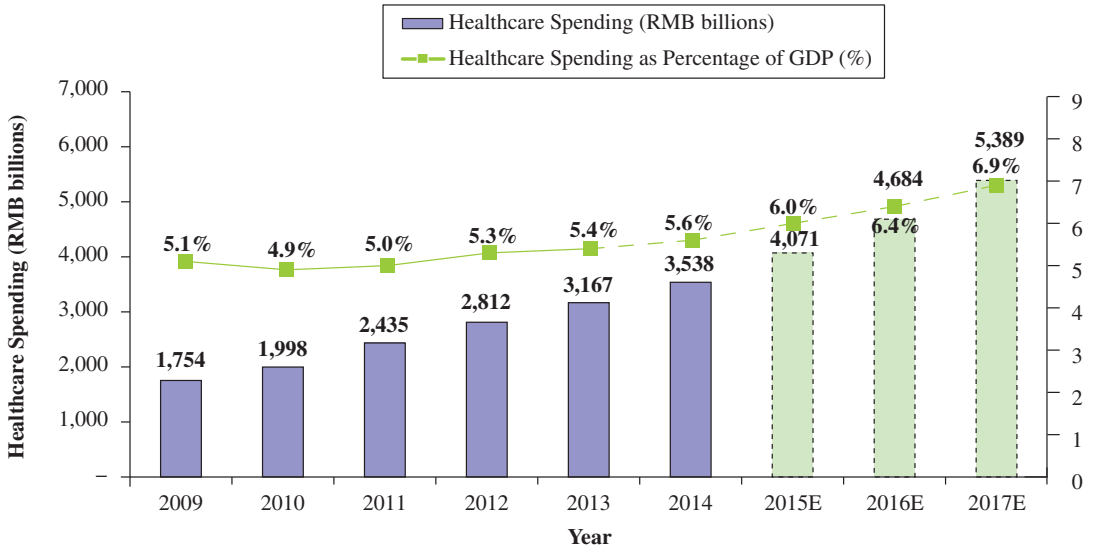
Country	2008	2009	2010	2011	2012	2013	CAGR (%) (2008 – 2013)
PRC	**155**	**189**	**216**	**274**	**322**	**367**	**18.8%**
United States	7,825	8,054	8,299	8,553	8,845	9,146	3.2%
Germany	4,718	4,728	4,668	4,992	4,717	5,006	1.2%
Japan	3,258	3,746	4,115	4,656	4,787	3,966	4.0%
United Kingdom	3,834	3,463	3,442	3,607	3,595	3,598	-1.3%
South Korea	1,263	1,219	1,506	1,662	1,724	1,880	8.3%
Brazil	728	744	989	1,154	1,078	1,083	8.3%
Russia	709	637	735	895	913	957	6.2%
India	44	46	54	61	58	61	6.8%

Source: World Bank and PICO

The per capita healthcare spending in China increased at a CAGR of 18.8% from 2008 to 2013, the highest out of the above-mentioned countries. However, the per capita healthcare spending in China is relatively low compared to other major countries.

According to the China Public Health Statistical Summary (2015) and PICO, total healthcare spending in the PRC increased from RMB1,754.2 billion in 2009 to RMB3,537.9 billion in 2014, representing a CAGR of 15.1%. Healthcare spending in the PRC is forecasted to continue to grow to RMB5,389.4 billion by 2017, representing an overall CAGR from 2014 to 2017 of 17.4%. The total healthcare spending in the PRC as a percentage of nominal GDP in 2009 was 5.1%, which has increased to 5.6% in 2013. The total healthcare spending in the PRC as a percentage of the PRC's GDP is forecasted by PICO to reach 6.9% by 2017.

Healthcare Spending and Healthcare Spending as a Percentage of GDP in the PRC (2009 – 2017E)



Source: China Public Health Statistical Summary (2015), PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

We believe that that the increase in healthcare spending in the PRC (in both absolute terms, on a per capita basis and as a percentage of GDP) signifies a trend in respect of the PRC population's increasing awareness of healthcare issues and healthcare related products. We believe that an increased awareness of healthcare issues and healthcare related products will continue to drive the growth of the healthcare industry in the PRC.

Aging Population in the PRC

The aging characteristic of the PRC population has become increasingly evident over the past few years. According to the National Bureau of Statistics, China's population grew from 1,334.5 million in 2009 to 1,367.8 million in 2014, representing a CAGR of 0.5%.

According to PICO, the number of people in the PRC aged 60 and above is forecasted to continue to increase and take up a larger proportion of the total population of the PRC.

Population in the PRC aged 60 and above

	2013	2014	2015E	2020E	2030E	2040E
PRC population aged 60 and above (million)	202.4	212.4	221.0	261.0	356.0	400.0
PRC population aged 60 and above as a percentage of total population (%)	14.7%	15.5%	16.1%	18.0%	23.7%	27.6%

Source: National Bureau of Statistics, PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

According to PICO, persons aged 60 and above are more susceptible to diseases (in particular, chronic diseases). Persons aged 60 and above in the PRC consumes healthcare resources at a rate that is 1.9 times higher when compared to that for the general population in the PRC. The prevalence rates for chronic diseases in the PRC for those aged 60 and above is 3.2 times higher when compared to the general population in the PRC and the prevalence rates for disabilities in the PRC for those aged 60 and above is 3.6 times higher when compared to the general population in the PRC. We believe that the combination of an increasing population (in absolute numbers) and an aging population (as a percentage of the total population) in the PRC will increase the demand for healthcare products in the PRC going forward. In our view, this will be one of the main drivers for the continuing growth of the healthcare industry in the PRC.

Rising Prevalence of Diseases in the PRC

There is a rising trend in the prevalence of diseases in the PRC. According to PICO, the prevalence rates of short-term diseases and chronic diseases have generally increased from 2008 to 2013. The table below sets out the prevalence rate of the top five diseases by general therapeutic areas based on surveys conducted by NHFPC in 2013 (for both short-term diseases and chronic diseases). Short-term diseases refer to those diseases and conditions that can be treated and generally allows a patient to recover within two weeks. Chronic diseases are tested by reference to whether a person is diagnosed with a chronic disease during a six-month test period or, if previously already diagnosed with a chronic disease, whether he or she has suffered from that disease again during a six-month test period.

Prevalence rates of the top five short-term diseases per surveys conducted by NHFPC (‰)

Therapeutic Area	2008	2013
Circulation system (including hypertension)	91.7‰	144.2‰
Respiratory system (including influenza)	40.5‰	42.4‰
Endocrine and metabolic system (including diabetes)	17.8‰	41.5‰
Muscular and skeletal system	21.1‰	15.2‰
Digestive system (including peptic ulcers)	20.6‰	14.1‰

Source: China Public Health Statistical Yearbook (2014) and PICO

Prevalence rates of the top five chronic diseases per surveys conducted by NHFPC (‰)

Therapeutic Area	2008	2013
Circulation system (including hypertension)	153.3‰	203.7‰
Endocrine and metabolic system (including diabetes)	31.4‰	54.6‰
Muscular and skeletal system	27.4‰	34.3‰
Digestive system (including stomach ulcers)	21.8‰	23.7‰
Respiratory system (including influenza)	15.7‰	15.8‰

Source: National Health Service Survey (2008), China Public Health Statistical Yearbook (2014) and PICO

PRC Government Healthcare Reform Plans

On 17 March 2009, the PRC government issued the Opinion on Deepening the Healthcare System Reform (中共中央國務院關於深化醫藥衛生體制改革的意見). The aim of the healthcare reform plan is to establish a basic, universal healthcare framework to provide Chinese citizens with safe, efficient, convenient and affordable healthcare services. The reform plan aims to establish the following four fundamental healthcare systems in China:

- *The public health services system*. As a complementary medical service system fully funded by the PRC government, this system focuses on preventing public diseases and promoting preventive healthcare as an alternative to medical treatment. The public health services system will provide services such as immunisations, regular physical check-ups for certain citizens, pre-natal and post-natal check-ups for women, prevention of infectious or chronic diseases, and other preventive and fitness activities.

- *The public medical insurance system*. This system covers drugs and medical treatments for the majority of the population. Under the healthcare reform plan, the framework of the current public medical insurance schemes under the national medical insurance program will be retained, but these schemes will expand to cover more of the population and medical treatments, and raise the cap and percentage of claim payments.

- *The healthcare service system*. One of the primary goals of the healthcare reform plan is to build more healthcare facilities and to improve the training of healthcare professionals in China. In addition, the PRC government will encourage private investors to establish non-public medical institutions.

- *The drug supply system*. This system regulates the pricing of drugs and how drugs will be procured, prescribed and dispensed in healthcare institutions. The healthcare reform plan will focus on pricing, procurement, prescription and dispensing of essential drugs.

As part of the ongoing reform, in August 2012, the PRC Ministry of Health released a new report with an updated plan called "Healthy China 2020", which is designed specifically to provide a strategic reform roadmap for the PRC healthcare industry. The key measures mentioned in the "Healthy China 2020" strategy report were to promote the development of the PRC healthcare industry, including continuing to improve the medical insurance system and further enhance insurance policies by increasing the compensation ratio under the basic medical insurance system; continuing to integrate the medical insurance systems in urban and rural areas by integrating the management of these systems; and actively promoting international exchange of ideas and collaboration.

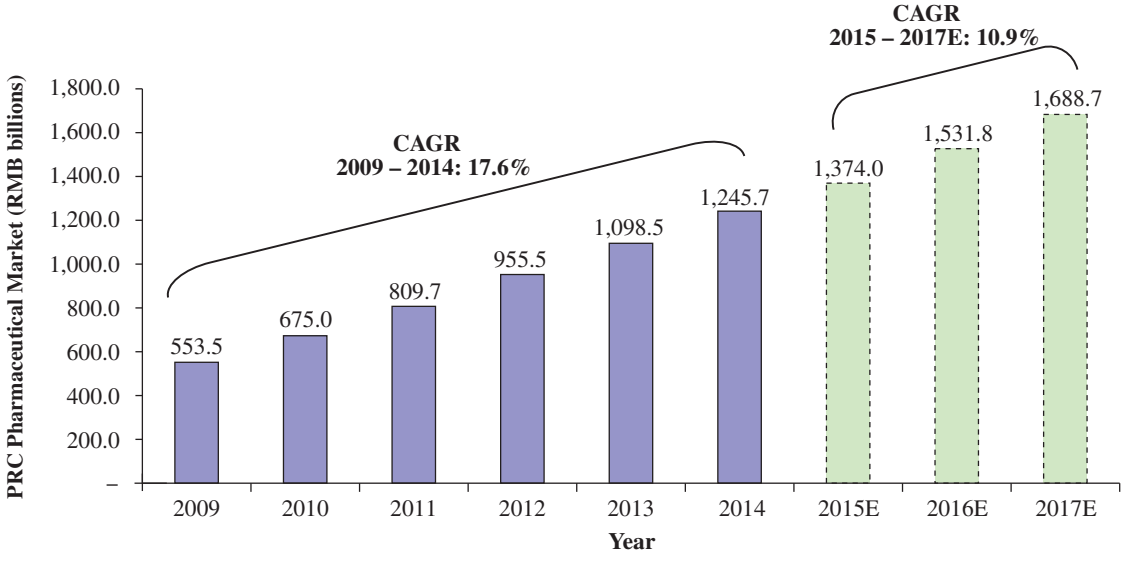
In October 2013, The State Council of the PRC has released a plan, "Opinions on Promoting and Developing Health Services", further expanding on the country's aim to provide affordable healthcare for the population in a more seamless and integrated manner and to propel economic growth through healthcare investments in areas of health-related industries through to 2020.

THE PRC PHARMACEUTICAL INDUSTRY

Growth of the PRC Pharmaceutical Industry

The overall PRC pharmaceutical industry has experienced rapid growth in recent years. According to PICO, the PRC pharmaceutical end market grew from RMB553.5 billion in 2009 to RMB1,245.7 billion in 2014, representing a CAGR of 17.6%, and is forecasted to grow to RMB1,688.7 billion by 2017, representing an overall CAGR from 2015 to 2017 of 10.9%, taking into account the increasing downward pressure faced by China's domestic economy. The chart below sets out the historical and forecasted growth of the PRC pharmaceutical end market.

Size of PRC Pharmaceutical End Market from 2009 – 2017E



Source: PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

Fragmentation of the PRC Pharmaceutical Industry

The PRC pharmaceutical industry is highly competitive and highly fragmented. According to the CFDA, as at June 2015, there were around 7,169 pharmaceutical manufacturer companies in the PRC. According to PICO, in 2013, the top four, top 15, top 25 and top 100 pharmaceutical manufacturer companies in the PRC accounted for 10.2%, 22.7%, 28.4% and 45.1% of the PRC pharmaceutical market, respectively, highlighting the fragmented and competitive nature of this industry.

PRC hospital end market by chemical treatment therapeutic area

The top five chemical treatment therapeutic areas in the PRC hospital end market are set out below (based on sampling analysis done by PICO).

Market share of the hospital end market in the PRC by therapeutic areas of chemical medicines (top five key therapeutic areas)

Key Therapeutic Area	2012	2013	2014
Oncology and immuno-suppressants	18.2%	18.9%	17.9%
Products for anti-infections (including anti-viral and anti-biotic products)	16.6%	15.3%	16.8%
Products for digestive system and metabolic system (including diabetes products and digestive ulcers products)	14.2%	14.1%	14.9%
Products for blood and hematopoietic system	11.5%	11.8%	12.4%
Products for cardiovascular system (including hypertension products)	14.7%	14.5%	11.7%
Others	24.8%	25.5%	26.4%
Total	100%*	100%*	100%*

Source: PICO

* *Subject to rounding.*

Raw materials

The primary raw materials for the production of pharmaceutical products are APIs. APIs may be manufactured by a pharmaceutical manufacturer for its own use or acquired from another pharmaceutical manufacturer. The Company believes that there is insufficient public data regarding the historical price of APIs in the PRC pharmaceutical market given that: (i) pharmaceutical companies generally do not disclose the price of APIs supplied to or by it; (ii) the cost of APIs will depend on the nature of the API itself and what drug or medicine such API will be used for; and (iii) many pharmaceutical manufacturers manufacture APIs for self-use.

INFECTIOUS DISEASES IN THE PRC

Infectious diseases are usually caused by infections from microorganisms, such as bacteria, virus, parasite or fungus, which can directly and indirectly infect others within a population. The most common forms of infections are viral infections and bacterial infections. For the purposes of this section of the prospectus, we will highlight two areas of viral diseases in the PRC: (i) influenza; and (ii) viral hepatitis.

Influenza in the PRC

Influenza, commonly known as "the flu", is a type of viral infection caused by the influenza virus. Outbreak of influenza tends to be of a seasonal nature and is usually more prevalent during the winter months.

According to PICO, the size of the PRC pharmaceutical market in relation to anti-influenza products (based on retail prices, excluding traditional Chinese medicine products) increased from RMB2,783 million in 2010 to RMB3,578 million in 2014, representing a CAGR of 6.5%. Going forward, according to PICO, the PRC pharmaceutical market in relation to anti-influenza products is forecasted to increase to RMB5,300 million by 2019, representing a CAGR of 8.3% from 2014 to 2019. In relation to the overall anti-influenza pharmaceutical products market in the PRC in 2014, oseltamivir phosphate products are the second highest selling product type by revenue, accounted for 9.8% of the total anti-influenza pharmaceutical products market in the PRC in 2014, behind the amantadine and related compounds market. The rankings and market share (by revenue) of the top-five anti-influenza products in the PRC by product type from 2012 to 2014 are set out below.

Ranking and sales of top-five anti-influenza products in the PRC by product type (2012-2014)

	2012[(1)]		2013[(1)]		2014[(1)]	
Product Type	**Ranking and Sales**	**Market Share**	**Ranking and Sales**	**Market Share**	**Ranking and Sales**	**Market Share**
Amantadine and related compounds (金剛烷胺及其複方製劑)	First (RMB2,864 million)	96.6%	First (RMB3,009 million)	93.8%	First (RMB3,199 million)	89.4%
Oseltamivir phosphate (磷酸奧司他韋)	**Second (RMB82 million)**	**2.8%**	**Second (RMB172 million)**	**5.4%**	**Second (RMB349 million)**	**9.8%**
Arbidol (阿比多爾)	Third (RMB11 million)	0.4%	Third (RMB16 million)	0.5%	Third (RMB20 million)	0.6%
Rimantadine (金剛乙胺)	Fourth (RMB7 million)	0.2%	Fourth (RMB9 million)	0.3%	Fourth (RMB8 million)	0.2%
Zanamivir (扎那米韋)	Fifth (RMB1 million)	0.0%	Fifth (RMB1 million)	0.0%	Fifth (RMB1 million)	0.0%
Others	–	–	(RMB1 million)	0.0%	(RMB1 million)	0.0%

Source: PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

Note:

(1) Sales and market share data based on retail prices and sales volume.

According to PICO, we were ranked fourth by market share in 2014 in relation to the anti-influenza virus product market in the PRC and the only producer of oseltamivir phosphate products within the top-five companies in this sector. The table below sets out the ranking of the anti-influenza virus product market in the PRC by manufacturer.

Market share of the anti-influenza product market in the PRC (%)*

Manufacturer (Product Type)	2012	2013	2014
Competitor A (Amantadine and related compounds)	29.4%	27.4%	27.9%
Competitor B (Amantadine and related compounds)	25.8%	27.6%	26.5%
Competitor C (Amantadine and related compounds)	17.9%	16.2%	14.9%
Our Company (Oseltamivir phosphate)	0.5%	3.8%	8.2%
Competitor D (Amantadine and related compounds)	7.3%	7.2%	6.8%
Total Market Share	80.9%	82.1%	84.4%

Source: PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

* *Subject to rounding.*

Oseltamivir phosphate product market in the PRC

In relation to the oseltamivir phosphate product market in the PRC, according to PICO, we were ranked first by market share in both 2013 and 2014. For 2012, 2013 and 2014, the size of the oseltamivir phosphate products market in the PRC (in terms of sales revenue) was RMB82 million, RMB172 million and RMB349 million, respectively. The table below sets out the ranking regarding the oseltamivir phosphate product market in the PRC.

Market share of the oseltamivir phosphate product market in the PRC

Manufacturer	2012	2013	2014
	%*	%*	%*
Our Company	17.9%	71.9%	84.1%
Competitor E**	80.8%	24.5%	12.7%
Competitor F***	1.3%	3.6%	3.2%
Total Market	100%	100%	100%

Source: PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

* *Subject to rounding.*

** *Competitor E is a company that we understand is part of a group of companies operated by Oseltamivir Phosphate Licensor.*

*** *Competitor F is another company based in Shanghai which has been licensed by Oseltamivir Phosphate Licensor to produce and sell oseltamivir phosphate products in the PRC.*

We believe that the significant increase to our market share in the oseltamivir phosphate product market in the PRC in 2013 was due to the effects of our educational promotion activities in relation to Kewei (for both capsules and granules form), which began in 2013. This was consistent with the substantial increase to the turnover generated by Kewei in 2013 (RMB70,116,000) when compared to 2012 (RMB9,198,000). In addition, we are the only manufacturer of the granules form of oseltamivir phosphate in the PRC and we understand that neither Competitor E nor Competitor F sell the granules form of oseltamivir phosphate in the PRC. Combined with our effective educational promotion activities, this allowed us to achieve a significant increase in the market share in this product market.

In addition, PICO is of the view that the price of our oseltamivir phosphate products was more competitive than Competitor E's. Competitor E's sales volume for oseltamivir phosphate products in the PRC also remained relatively stable during the relevant period. Compared to Competitor F, PICO is of the view that we had a greater production capacity for oseltamivir phosphate during the relevant period. Therefore, as the demand for oseltamivir phosphate products in the PRC in 2013 grew (in particular, the outbreak of influenza in Anhui, Jiangsu, Zhejiang, Shanghai and Guangdong provinces in 2013), this allowed the Company to increase its market share.

Please see "Business – Our Products – Anti-viral products – Kewei (oseltamivir phosphate)".

Viral hepatitis in the PRC

Hepatitis is an inflammation of the liver, most commonly caused by a viral infection. There are five main Hepatitis viruses, referred to as types A, B, C, D and E. These five types are of greatest concern because of the burden of illness and death they cause and the potential for outbreaks and epidemic spread. In particular, types B and C may lead to chronic disease in many people and, together, are the most common cause of liver cirrhosis and cancer. The WHO estimated that 240 million people are chronically infected with Hepatitis B worldwide. It is estimated that up to 120 million people suffers from chronic Hepatitis B infections in the PRC.[1] The WHO also estimated that around 130-150 million people globally have chronic Hepatitis C infection. It is also estimated that 13 to 25 million people in China might be infected by the Hepatitis C virus.[2]

According to PICO, the size of the PRC pharmaceutical market in relation to anti-viral products for the treatment against the Hepatitis B virus (based on retail prices, excluding traditional Chinese medicine products) increased from approximately RMB7,500 million in 2010 to RMB15,400 million in 2014, representing a CAGR of 19.7%. PICO forecasted that the size of the PRC pharmaceutical market in relation to anti-viral products for the treatment against the Hepatitis B virus will increase to around RMB32,200 million by 2019, representing a CAGR of 16.0% from 2014 to 2019.

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1 http://onlinelibrary.wiley.com/doi/10.1111/jgh.12220/full

2 http://www.ncbi.nlm.nih.gov/pmc/articles/PMC4162325/#R1

The current standard treatment for Hepatitis C viral infections in the PRC are interferon drugs. Interferon drugs can also be used to treat other conditions, such as cancer. PICO estimated that approximately 60-70% of interferon drugs used between 2012 to 2014 were used for the treatment against chronic Hepatitis C viral infections (calculated based on the estimated number of patients who received treatment for Hepatitis C viral infection, the average price for interferon drugs, the treatment period and the total market size of interferon drugs in the PRC) and, extrapolating from this, PICO estimated that the size of the PRC pharmaceutical market in 2014 in relation to anti-viral products for the treatment against the Hepatitis C virus to be approximately RMB3,542 million. PICO noted that as the next generation of anti-Hepatitis C virus drugs being developed is expected to increase the effectiveness of the treatment of Hepatitis C viral infections, such drugs will drive the rapid growth of the anti-Hepatitis C virus drug market in the PRC.

ENDOCRINE AND METABOLIC DISEASES IN THE PRC

For the purposes of this section of the prospectus, we will highlight two diseases in this therapeutic area in the PRC: (i) diabetes; and (ii) hyperuricemia.

Diabetes in the PRC

Diabetes is a common form of endocrine and metabolic disease. It is often characterised by high blood glucose levels over a prolonged period. Diabetes is due to either the pancreas not producing enough insulin or the cells of the body not responding properly to the insulin produced. The three main types of diabetes are Type 1 diabetes, Type 2 diabetes and gestational diabetes.

According to the IDF, there were 98.4 million people in the PRC suffering from diabetes in 2013. The IDF forecasted that this number will increase to 142.7 million by 2035. According to PICO, the size of the PRC pharmaceutical market in relation to products for the treatment of diabetes increased from RMB17,021 million in 2010 to RMB31,630 million in 2014, representing a CAGR of 16.8%. PICO forecasted that the size of the PRC pharmaceutical market in relation to products for the treatment of diabetes will increase to around RMB59,400 million by 2019, representing a CAGR of 13.4% from 2014 to 2019.

Diabetes products is used to lower blood glucose levels, and are largely divided into two type: oral formulation or injection of insulin (which lowers blood sugar levels). Type 1 diabetes can only be treated by insulin injections. As biological technologies continue to develop, first generation insulin (animal insulin) has developed into second generation insulin (recombinant human insulin) and has further developed into third generation insulin (insulin analogues).

PRC has experienced steady growth in relation to the market for second generation insulin products (such as recombinant human insulin) and third generation insulin products (such as insulin glargine and insulin aspart). According to PICO, the size of the second generation insulin product market in the PRC increased from RMB4,367 million in 2010 to RMB7,209 million in 2014, representing a CAGR of 13.4%. In relation to third generation insulin products, the size of the PRC market increased from RMB3,358 million in 2010 to RMB8,648 million in 2014, representing a CAGR of 26.7%.

Hyperuricemia in the PRC

Hyperuricemia is a type of metabolic disease involving elevated levels of uric acids in blood. In certain cases, this can lead to gouts.

According to PICO, the size of the PRC pharmaceutical market in relation to products for the treatment of hyperuricemia (based on retail prices, excluding traditional Chinese medicine products) increased from RMB399 million in 2010 to RMB825 million in 2014, representing a CAGR of 19.9%. PICO forecasted that the size of the PRC pharmaceutical market in relation to products for the treatment of hyperuricemia will increase to around RMB1,570 million by 2019, representing a CAGR of 13.7% from 2014 to 2019. According to PICO, hyperuricemia products include mainly benzbromarone, allopurinol, colchicine and febuxostat, of which benzbromarone is the leading product in this market. According to PICO, benzbromarone products accounted for 62.6%, 62.8% and 60.6% of the PRC market for the treatment of hyperuricemia (based on retail prices, excluding traditional Chinese medicine products) in 2012, 2013 and 2014, respectively.

Benzbromarone product market in the PRC

According to PICO, in the benzbromarone product market in the PRC, we were ranked third by market share in 2014. The table below sets out the market ranking regarding the benzbromarone product market in the PRC.

Market share of the benzbromarone product market in the PRC

Manufacturer	**2012**	**2013**	**2014**
	*%**	*%**	*%**
Competitor G	65.1%	67.0%	67.1%
Competitor H	19.6%	17.4%	17.6%
Our Company	9.8%	10.5%	10.4%
Competitor I	3.7%	3.3%	3.2%
Competitor J	1.8%	1.8%	1.6%
Total Market	100%	100%	100%

Source: PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

* *Subject to rounding.*

CARDIOVASCULAR DISEASES IN THE PRC

Cardiovascular diseases are diseases involving the heart or blood vessels and are one of the leading causes of death among the PRC population. The underlying causes of cardiovascular diseases vary depending on the nature of the disease. However, the main types of cardiovascular diseases are hypertension and hyperlipidemia.

According to PICO, the size of the pharmaceutical market in the PRC in relation to cardiovascular diseases (based on retail prices, excluding traditional Chinese medicine products) increased from RMB50,105 million in 2010 to RMB88,855 million in 2014, representing a CAGR of 15.4%. PICO forecasted that the size of the PRC pharmaceutical market in relation to cardiovascular diseases will increase to around RMB159,600 million by 2019, representing a CAGR of 12.4% from 2014 to 2019.

For the purposes of this section of the prospectus, we will highlight one disease in this therapeutic area in the PRC: hypertension.

Hypertension in the PRC

Hypertension is a chronic condition in which the blood pressure in the arteries is elevated. Hypertension does not exhibit symptoms initially, but sustained hypertension can lead to various other cardiovascular diseases. According to the China Public Health Statistical Yearbook (2014), there were 205 million people in the PRC suffering from cardiovascular diseases, of this population, approximately 162 million people suffered from hypertension and 25 million suffered from heart disease. In the same survey, it was estimated that the prevalence rate of hypertension was 142.5‰ and the prevalence rate of heart disease was 22.1‰.

According to PICO, the PRC pharmaceutical market in relation to products for the treatment of hypertension (based on retail prices, excluding traditional Chinese medicine products) has experience steady growth from RMB25,470 million in 2010 to RMB47,314 million in 2014, representing a CAGR of 16.7%. PICO forecasted that the size of the PRC pharmaceutical market in relation to products for the treatment of hypertension will increase to around RMB884,000 million by 2019, representing a CAGR of 13.3% from 2014 to 2019. There are many drug types for the treatment of hypertension, including calcium channel blockers (such as amlodipine besylate), angiotensin II receptor antagonists (such as telmisartan), angiotensin converting enzyme inhibitors, beta blockers and diuretics, with the first two being the main treatment categories. In 2014, calcium channel blocker products and angiotensin II receptor antagonists products accounted for 42.3% and 22.8% of the PRC pharmaceutical market in relation to drugs for treating hypertension, respectively.

Calcium channel blocker product market in the PRC

Calcium antagonists, also called calcium channel blockers, relax and widen blood vessels by preventing calcium from entering cells of the heart and smooth muscle cells of vessels, resulting in lower blood pressure. There are various different forms of calcium channel blocker products in the PRC and according to PICO, the top three product types of calcium channel blockers in the PRC in 2014 were nifedipine, amlodipine and levamlodipine. According to PICO, amlodipine products accounted for 13.7%, 12.9% and 12.4% (based on retail prices, excluding traditional Chinese medicine products) of the PRC market for treatment of hypertension in 2012, 2013 and 2014, respectively. In relation to the amlodipine product market in the PRC, according to PICO, we were ranked sixth by market share in 2014. The table below sets out the market rankings regarding the amlodipine product market in the PRC.

Market share of the amlodipine product market in the PRC

Manufacturer	2012 %*	2013 %*	2014 %*
Competitor K	60.7%	61.9%	61.7%
Competitor L	7.8%	8.4%	9.5%
Competitor M	8.2%	8.1%	8.0%
Competitor N	9.5%	8.3%	7.4%
Competitor O	1.9%	2.2%	2.6%
Our Company	2.5%	2.3%	2.3%
Others	9.4%	8.8%	8.4%
Total Market	100%	100%	100%

Source: PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

* *Subject to rounding.*

Angiotensin II receptor antagonists product market in the PRC

Angiotensin II receptor blockers inhibit a substance that causes blood vessels to narrow. As a result, blood vessels relax and widen, making it easier for blood to flow through the vessels, which reduces blood pressure. There are various different forms of angiotensin II receptor antagonists products in the PRC pharmaceutical market and according to PICO, the top three product types of angiotensin II receptor antagonists in the PRC in 2014 were valsartan, irbesartan and telmisartan. According to PICO, telmisartan products accounted for 4.2%, 3.7% and 3.2% of the PRC market for treatment of hypertension (based on retail prices, excluding traditional Chinese medicine products) in 2012, 2013 and 2014, respectively. In relation to the telmisartan product market in the PRC, according to PICO, we were ranked fourth by market share in 2014. The table below sets the market rankings regarding the telmisartan product market in the PRC.

Market share of the telmisartan product market in the PRC

Manufacturer	2012 %*	2013 %*	2014 %*
Competitor P	51.5%	51.9%	52.0%
Competitor Q	9.6%	11.8%	12.9%
Competitor R	6.0%	7.2%	8.5%
Our Company	6.6%	6.6%	7.0%
Competitor S	3.7%	4.9%	5.3%
Others	22.7%	17.6%	14.3%
Total Market	100%	100%	100%

Source: PICO and CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所)

* *Subject to rounding.*

DIGESTIVE DISEASES IN THE PRC

Digestive diseases are diseases that cover a broad range of diseases and conditions which may affect a person's oesophagus, stomach, liver, intestines, gall bladder and pancreas and is often in the form of a chronic disease. For the purposes of this section of the prospectus, we will highlight one area of digestive diseases in the PRC: peptic ulcers.

Peptic ulcers in the PRC

Peptic ulcers is a common chronic digestive disease in the PRC. It can affect the stomach, the lower part of the oesophagus or the first part of the small intestines. Patients suffering from peptic ulcers often suffer from excess stomach acids and abdominal pains. Treatment involves lowering the stomach acid levels to soothe pains and allow the affected areas to heal. According to the "2008 China Health Services Survey – The Fourth Family Health Survey Analysis Report" (2008中國衛生服務調查研究 – 第四次家庭健康詢問調查分析報告), the prevalence rate for short-term peptic ulcers was 2.3‰, with around 3 million people affected and the prevalence rate for chronic peptic ulcers was 3.3‰, with around 4 million people affected.

According to PICO, proton pump inhibitor (PPI) and antacids products are the most commonly used drug for the treatment of peptic ulcers in the PRC, and in 2010, proton pump inhibitor (PPI) products accounted for 61.9% of the PRC market in relation to drugs used for the treatment of peptic ulcers and this increased to 74.3% in 2014. According to PICO, the size of the proton pump inhibitor (PPI) product market in the PRC increased from RMB10,660 million in 2010 to RMB21,833 million in 2014, representing a CAGR of 19.6%. PICO forecasted that the size of the PRC pharmaceutical market in relation to proton pump inhibitor (PPI) products will increase to around RMB43,800 million by 2019, representing a CAGR of 15.0% from 2014 to 2019.

SOURCES OF INFORMATION

The information and statistics set out in this "Industry Overview" section have been extracted or derived from various sources, including the National Bureau of Statistics, the CFDA, the CDC, the IDF and PICO. Other than data and information provided by PICO, all other sources of information are provided by Independent Third Parties that have not been commissioned by us.

In connection with the Global Offering, we have engaged PICO, an Independent Third Party, to conduct research on the PRC pharmaceutical market for a fee of RMB290,000. The payment of such fee is not contingent upon our successful Listing or the results of the data and information provided by PICO. It has been engaged by the Company to collect and provide certain data and information for the purposes of this section.

In the collection and provision of the relevant information and data used to prepare this section, PICO made use of multiple primary and secondary sources to validate any data or information collected in order to reflect a balanced view of historical and estimated data

relating to the PRC pharmaceutical market. PICO has relied on data from, but not limited to: (a) the comprehensive database of the CFDA Southern Medicine Economic Institute (CFDA南方醫藥經濟研究所); (b) statistical yearbooks and other documents published by the MOH and the NHFPC; (c) statistics and data published by the National Bureau of Statistics; and (d) information and data made available by various international organisations and institutions, such as the World Bank, the WHO and the IDF.

In the preparation, collection and provision of forecasted information and data used to prepare this section, PICO applied the following assumptions and methodology:

- the PRC pharmaceutical industry will continue to grow at a steady rate;
- no material adverse circumstances occurring to the PRC pharmaceutical industry;
- no material changes to the rate of growth to the PRC's nominal GDP, the PRC population and disposable income in the PRC; and
- in relation to a particular therapeutic area, unless otherwise indicated, no material changes to the safety of the relevant medicine and drugs and no changes to the diagnosis or treatment of a disease that is of a revolutionary nature.

When assessing the size of a particular sector of the PRC pharmaceutical market, PICO has excluded traditional Chinese medicine products.

About PICO

PICO is principally engaged in publishing and information management and is a service provider of information gathering and research and analysis of the pharmaceutical industry in the PRC. The information and data derived from PICO and contained herein has been obtained from sources which PICO believes to be reliable, however PICO cannot assure the accuracy or completeness of such information. Forecasted data (and their related assumptions and methodology) collected and provided by PICO are inherently uncertain because of events or combinations of events that cannot reasonably be foreseen, including, without limitation, the actions of government, individuals, third parties and competitors. Specific factors that could cause actual results to materially differ include, among others, risks inherent in the pharmaceutical industry, financial risks, labour risks, supply risks, regulatory risks and environmental concerns.

On the basis of the above, the Directors are satisfied that the disclosure of future projections and industry data in this section is not biased or misleading. The Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date on which PICO has provided the relevant information and data used by us to prepare this section, which may qualify, contradict or have an impact on the information disclosed in this section.

PRC REGULATORY ENVIRONMENT

The pharmaceutical industry is highly regulated in the PRC. We are subject to PRC laws and regulations that govern pharmaceutical products as well as those regulate the manufacturing, sales and distribution of pharmaceutical products. This section contains a summary of principal laws and regulations currently relevant to our operation and business.

PRC LAWS AND REGULATIONS IN RELATION TO FOREIGN INVESTMENT

Foreign Investment

Foreign-invested enterprises in China must comply with applicable laws, rules and regulations of China, and shall not be engaged in any activities prejudicial to the public interests of China. Our Company is a foreign-invested company limited by shares and is governed by the Company Law of the PRC (《中華人民共和國公司法》), the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) and other laws and regulations.

Catalogue of Industries for Guiding Foreign Investment

Foreign investors and foreign-invested enterprises in China are governed by the Catalogue of Industries for Guiding Foreign Investment (as amended in 2015) (《外商投資產業指導目錄(2015年修訂)》) . The Catalogue of Industries for Guiding Foreign Investment classifies foreign invested enterprises into three categories, namely, the encouraged category, the restricted category and the prohibited category, and any industries which do not fall into the said categories are included in the permitted category. Foreign investors and foreign-invested enterprises which belong to the encouraged category may enjoy certain governmental preferential treatment and encouraging policies (as may be amended from time to time); and foreign investors and foreign-invested enterprises are not restricted from investing in any industries of the permitted category, but are not qualified to enjoy such preferential treatment and encouraging policies. Foreign investors and foreign-invested enterprises are also permitted to invest in any industries of the restricted category, but certain restrictions must be observed. Foreign investors and foreign invested enterprises are not allowed to invest in any industries of the prohibited category.

No pharmaceutical manufacturing interests of our Company in which we have invested in belong to industries of the restricted category or the prohibited category. Accordingly, our Company is not required to comply with any provisions related to any investment by foreign investors and foreign-invested enterprises under the Catalogue of Industries Guiding for Foreign Investment (as amended in 2015).

PRC REGULATORY FRAMEWORK AND PRINCIPLE REGULATORY AUTHORITIES IN RELATION TO THE PHARMACEUTICAL INDUSTRY

Regulatory Framework of the Pharmaceutical Industry

The pharmaceutical industry in China is regulated by the PRC government. The Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) provides the basic legal framework in respect of any administration of pharmaceutical products in PRC, and covers a number of aspects such as manufacturing, distributing, packaging, pricing and advertising with respect to pharmaceutical products. The regulations made under the Drug Administration Law contain the detailed rules for the administration of pharmaceuticals in PRC.

Principle Regulatory Authorities

As a pharmaceutical manufacturing company, we are regulated and supervised by a number of regulatory authorities in the PRC, including CFDA, the NHFPC, the NDRC, the MOHRSS and the MOFCOM.

CFDA is the principle authority of pharmaceutical industry. CFDA regulates and supervises research and development, production, distribution and usage of pharmaceutical products within PRC. CFDA's provincial and local branches are responsible for the supervision and administration of pharmaceutical products within their respective administrative regions. Almost every step of our production and sale activities is subject to the CFDA and its branches' regulation.

The NHFPC performs multiple functions in relation to pharmaceutical administration, including but not limited to: enforcing the reform of healthcare system; establishing the national drugs policies and national essential drugs system; implementing the National List of Essential Drugs (《國家基本藥品目錄》); proposing an administration system for the purchase, distribution and use of the national essential drugs; proposing any encouraging and supporting policy in respect of production of drugs listed in the National List of Essential Drugs to relevant governmental departments; advising the price reform policy with respect to the national essential drugs; and playing a vital role in formulating the national pharmacopeia.

The NDRC is responsible for macro direction and administration in relation to development planning of pharmaceutical industry, establishing and enforcing the implementation of drugs pricing policy, administrating the overall prices of drugs.

The MOHRSS is responsible for the establishment of the rules and policies of the medical insurance as well as for the preparation of the National Medical Insurance Drugs Catalogue and the Medicines (《國家基本醫療保險和工傷保險藥品目錄》) for work-related injuries.

The MOFCOM regulates the drug wholesale activities in the PRC and establishes plans and policies for the development, restructuring and reform of the drug wholesale and distribution industry.

PRC LAWS AND REGULATIONS IN RELATION TO MANUFACTURING PHARMACEUTICAL PRODUCTS

In PRC, a pharmaceutical manufacturer must obtain a number of permits, licenses and registrations before it may commence operation and production, these include the Business License, the Drug Manufacturing Certificate, the Good Manufacturing Practice (GMP) Certificate, and the approval and registration documents, in each case, in relation to pharmaceuticals manufacturing.

Drug Manufacturing Certificate and Business Licence

In accordance with the Drug Administration Law of the PRC, a pharmaceutical manufacturer must obtain a Drug Manufacturing Certificate from the CFDA at the provincial level before it starts to manufacture pharmaceutical products. Prior to granting such licence, the relevant government authority will inspect the manufacturer's production facilities, and decide whether the sanitary conditions, quality assurance system, management structure and equipment within the facilities have met the required standards. A pharmaceutical production licence is valid for five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority.

In addition, before commencing business, a pharmaceutical manufacturer must also obtain a Business Licence from the relevant administration for industry and commerce.

Good Manufacturing Practices or GMP (《藥品生產質量管理規範》)

A pharmaceutical manufacturer of pharmaceutical products and pharmaceutical raw materials must obtain a GMP certificate before it may start to produce pharmaceutical products and pharmaceutical raw materials. GMP provides detailed guidelines in respect of practices governing the production of pharmaceutical products. A GMP certificate certifies that a manufacturer's factory has met certain criteria in the administrative measures for production, which includes: institution and staff qualifications, production premises and facilities, equipment, hygiene conditions, production management, quality controls, product operation, maintenance of sales records and manner of handling customer complaints and adverse reaction reports. According to the Certification Measures on GMP (《藥品生產質量管理規範認證管理辦法》), a pharmaceutical manufacturer shall reapply for the GMP certification six months prior to its expiration date.

Continuous Supervision by the CFDA

A pharmaceutical manufacturer is subject to periodic inspection and safety monitoring by the CFDA to determine its compliance with regulatory requirements. The CFDA can take a variety of enforcement actions to enforce its regulations and rules, such as fines and injunctions, recalls or seizure of products, imposition of operating restrictions, partial suspension or complete shutdown of production and transfer to the relevant authority for criminal investigation.

PRC LAW AND REGULATIONS IN RELATION TO THE REGISTRATION OF PHARMACEUTICAL PRODUCTS

New Drug Registration

In accordance with the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》), new drug registration application means registration applications in respect of any drugs which have never been marketed in PRC previously. Any application for any marketed drugs, relating to any changes in the dosage form, any change to the route of administration or any additional indication, shall be follow the registration procedures of a new drug application.

All new drugs must go through four stages before such drugs are to be sold: pre-clinical research, application for clinical test, clinical test and approval for production.

After completing the pre-clinical research, the pharmaceutical manufacturer must obtain approval from the CFDA before new drug clinical trials may be conducted.

Clinical trials comprise of four phases: the phase I (preliminary pharmacology and human safety trials); phase II (preliminary assessment on the efficacy), phase III (confirmation of efficacy) and phase IV (research on applications after launching of new pharmaceuticals).The case number in every phase of clinical trial must satisfy the clinical trial target for each phase and the relevant statistical requirement.

After the clinical trials are completed, the applicant must submit new drug application for approval to manufacture and launch such new drugs. Upon approval, the applicant shall be granted a new drug certificate and a drug approval number. The applicant may then start to commercial-produce such new drug thereafter.

According to the Regulations on Special Examination and Approval for Registration of New Drug (《新藥註冊特殊審批管理規定》), a new drug application that meets certain requirements will be handled with priority in the review and approval process.

Registration of Biological Drugs

In accordance with the Measures for the Administration of Drug Registration, biological drugs is further classified as therapeutic biological product and prophylactic biological product. Applications for biological products shall be submitted as the process of new drug application. A biological product, sample drugs must be examined by the drug inspection bureau, which will provide a verification report to the CFDA. Upon receipt of the above materials, the CFDA will conduct both technical and non-technical reviews of the application to decide whether to grant an approval for drug clinical trials. After completion of the clinical trials, the following procedures and examinations are similar to those of new drugs. If approved, the applicant will be granted a new drug certificate and a drug approval number and may commence commercial production of the biological drug.

Generic Drug Registration

In accordance with the Measures for the Administration of Drug Registration, generic drug application means an application for the registration of the drugs which have been approved by the CFDA to be sold in PRC and for which the existing state standards are available.

For the purpose of generic drug application, the applicant should submit relevant information prepared in accordance with the relevant national standards to the CFDA at the provincial level, which will then review the applicant's submission and conduct on-site inspection. After the preliminary review, the CFDA at the provincial level will then submit the relevant materials and inspection report to the CFDA, which will conduct an assessment of the application to consider whether an approval should be granted for marketing or clinical trial. For generic drugs which are oral solid formulation, including but not limited to capsules, granules and tablets, the applicant must conduct clinical trials, being bioequivalent studies. Afterwards, the applicant shall submit the clinical trial report to the CFDA for a final assessment of the drug application and the CFDA will consider whether a marketing approval should be granted. The applicant may then start to commercial-produce such generic drug after obtaining a drug approval number from the CFDA.

Supplementary Application

A supplementary application means a registration application for any change, modification or cancellation of the matters or contents of the original approval after a new drug, a biologic drug or a generic drug application has been approved. The CFDA at the provincial level will provide an examination opinion in respect of any supplementary applications with respect to any amendments to the approval drug specification, changes of the excipients with medicinal requirements the drug formulation, or changes in the production process which will have an effect on the drug quality. Then CFDA at the provincial level will submit such opinion to the CFDA for examination and approval.

Re-registration

The drug approval number, the Registration Certificate for Imported Drugs or the Pharmaceutical Product Registration Certificate (《醫藥產品註冊證》) issued by the CFDA are valid for 5 years. Upon expiry, the application should apply for re-registration 6 months prior to such expiry if any production or import needs to continue.

New Measures by the CFDA

Since July 2015, the CFDA has introduced certain measures to deal with its current backlog of drug applications. On 22 July 2015, the CFDA issued Notice No. 117 (CFDA notice in relation to self-review of clinical trials data) (國家食品藥品監督管理總局關於開展藥物臨床試驗數據自查核查工作的公告), which required the current applicants in respect of the existing 1,622 drug manufacturing or drug import applications to the CFDA to re-review the clinical

trials data in respect of each such application. On 31 July 2015, the CFDA issued Notice No. 140 (Consultation on policy in relation to swiftly resolving the problem of congested drug applications) (關於徵求加快解決藥品註冊申請積壓問題的若干政策意見), which stated that it will apply the most stringent standard to review and approve the current drug applications. In addition, on 11 November 2015, the CFDA issued Notice No. 230 (Certain policies in relation to review and approval of drug applications) (關於藥品註冊審評審批若干政策的公告), which set out ten key points to be applied in the process of reviewing and approving the current drug applications, with an emphasis on the accuracy of clinical trials data, the effectiveness of the drug and the consistency between the original innovative version and the generic version of a product as demonstrated in comparability studies. The combination of Notice No. 117, Notice No. 140 and Notice No. 230 means that pharmaceutical companies will need to conduct self-review of their current drug applications to see if it meets the stringent standards of the CFDA, failing which, the CFDA would expect the relevant applicant to withdraw its drug application and to resubmit the relevant drug application when the requirements are met. Furthermore, the CFDA also issued three consultation papers in relation to bioequivalence and comparability studies of generic drugs, namely, (i) Notice No. 221 (Consultation paper on regulations in relation to registration of bioequivalence studies for generic drugs) (關於徵求化學仿製藥生物等效性試驗備案管理規定(徵求意見稿)) which sets out the procedure and criteria of registration in relation to the bioequivalence studies for generic drugs; (ii) Notice No. 227 (Consultation paper on prioritising the review and approval of the congested drug applications) (關於解決藥品註冊申請積壓實行優先審評審批的意見(徵求意見稿)) which sets forth the criteria and procedure for fast-track review process, including resubmitted drug applications with comparability studies and innovative drugs; and (iii) Notice No. 231 (Consultation paper on evaluation of the quality and effectiveness of generic drugs) (關於開展仿製藥質量和療效一致性評價的意見(徵求意見稿)) which provides the principles and policies for evaluating the quality and effectiveness of generic drugs, in order to improve the quality of generic drugs in China.

PRC LAW AND REGULATIONS IN RELATION TO DISTRIBUTION OF PHARMACEUTICAL PRODUCTS

In PRC, a drug distributor must obtain various permits and licenses, including the Business License, the Drug Trading Certificate, the Good Supply Practice (GSP) Certificate before it starts business in relation to distribution of pharmaceutical products.

Drug Trading Certificate and Business Licence

An approval must be obtained from the CFDA at the provincial level before a company starts business in relation to wholesales of pharmaceutical products. After the approval has been obtained, the relevant departments will issue a Drug Trading Certificate. According to the Measures on the Administration of the Drug Trading Certificate (《藥品經營許可證管理辦法》), a Drug Trading Certificate is valid for 5 years. Upon expiry, the enterprise which holds such certificate should apply to the original issuing authorities for a new Drug Trading Certificate 6 months prior to expiry if drug distribution needs to continue.

In addition, before commencing business, a wholesale or retail pharmaceutical distribution company must also obtain a Business Licence from the relevant administration for industry and commerce.

GSP

A drug retailer or wholesaler may start to conduct its business only after it has obtained the GSP certificate issued by the competent office of CFDA. GSP constitutes the basic standards for management of drug supply business. The current applicable GSP standards provide that drug suppliers must strictly control its drug operation, including the qualification of relevant employees, the business operation site, the warehouses, the test equipment and facilities, the standards for management and quality standards. According to the Certification Administration Measures of the Good Supply Practice (《藥品經營質量管理規範認證管理辦法》) and the Good Supply Practice for Medicine Distribution Quality (《藥品經營質量管理規範》), a GSP certificate is valid for 5 years generally and may be renewed 3 months prior to its expiry.

Supervision and Management of Drug Circulation

The Measures on the Supervision and Management of Drug Circulation (《藥品流通監督管理辦法》) provides in detail for the transactions, transportation and storage of drugs as well as for drug purchases and storage by a medical institution.

Drug Advertisement

According to the Drug Administration Law of the PRC and the Measures on the Review of Drug Advertisements (《藥品廣告審查辦法》), if any advertisement in any media or in any form in PRC contains drug names, drug treatment mechanics or any contents related to drugs, such advertisements would be deemed to be drug advertisements, which would be examined in accordance with law. An enterprise must apply for an approval number for a drug advertisement in respect of the drugs to be advertised. The approval number of a drug advertisement is valid for one year. No content of a drug advertisement may be amended without prior approval. If any content of a drug advertisement needs to be amended, an application must be submitted for a new approval number for the drug advertisement.

No advertisements in respect of any prescription drugs may be made in any mass media of communication or otherwise targeting at the general public, but such advertisements may be carried in the professional publications of medical science or pharmacy jointly designated by the state healthcare administrative departments and the CFDA.

Drug Recall

According to the Measures on Drug Recall (《藥品召回管理辦法》), a drug manufacturer should establish and improve its recall system by collecting relevant information about drug safety and making an investigation and evaluation with respect to any drugs with possible potential safety hazards. If there are any possible safety hazards that endanger human health and life safety in respect of any drugs sold in PRC, such manufacturer must start the drug recall procedures. Where a drug is recalled, the drug operating units and users should assist such drug manufacturer to satisfy its recall obligations by communicating the drug recall information, giving any feedback, controlling and recovering such drugs with potential hazards according to the recall plan.

There are two kinds of drug recall: active or mandatory. A drug manufacturer should active recall any drugs if it finds such drugs to be potentially hazardous. If a drug manufacturer should recall its drugs but fails to do so, the CFDA may mandatorily order such manufacturer to recall such drugs.

Drug recall is divided into three kinds depending upon the severity of the safety hazards. The first or second kind is applicable when such drugs may cause severe health hazards or give rise to temporary or reversible health hazards; the third kind is applicable when such drugs will not cause health hazards generally, but should be recalled for any other reasons.

PRC LAW AND REGULATIONS IN RELATION TO PHARMACEUTICAL PRODUCTS

National Drug Standards

The national drug standards mean the quality standards, test methods and production technology established to ensure drug quality, including such standards as contained in the drug standards of MOH, the Pharmacopoeia of the PRC and the drug standards of the CFDA.

Prescription Medicines and Non-Prescription Medicines

According to the Measures on the Classification Management of Prescription Medicine and Non-Prescription Medicine (on a trial basis) (《處方藥與非處方藥分類管理辦法(試行)》), PRC categorises medicines as prescription and non-prescription medicines, according to variety, specification, applicable disease, dosage and administration route. Prescription medicines are medicines which are prepared, purchased and used only on the basis of a prescription by a medical practitioner or an assistant medical practitioners, while non-prescription medicines are medicines which are purchased and used at one's own discretion without a prescription from a medical practitioner or an assistant medical practitioner.

The CFDA is responsible for the safety, screening, examination and approval of relevant medicines and is also responsible for publishing and amending the national non-prescription medicine catalogue. Non-prescription medicines are further divided into Class A and Class B, which are managed separately. A manufacturer of prescription and non-prescription medicines must obtain a drug product permit and the approval for the production of relevant drugs.

A wholesaler of prescription medicines and non-prescription medicines and a retailer of prescription medicines and Class A non-prescription medicines must obtain a Drug Trading Certificate. Other commercial enterprises, if approved by a provincial office of the CFDA or its authorised counterpart may retail Class B non-prescription medicines. If a retailer sells Class B non-prescription medicines, such retail must engaged qualified personnel who have received professional training before it is engaged in such retail business related to Class B non-prescription medicines.

Drug Production Description, Label and Packaging

The insert sheet and label for any drugs sold in PRC must be in compliance with the requirements of the Provisions for Drug Registration (《藥品註冊管理辦法》) and the Provisions for Drug Insert Sheet and Labels (《藥品說明書和標簽管理規定》). The contents of any drug insert sheets and labels must be approved by the CFDA and must not contain any inaccurate advertisements. If the specifications and packaging specifications of a drug produced by the same drug manufacturer is the same, the content, format and colour with respect to the label for such drug must be the same. The packaging colours for the same drug product produced by the same drug manufacturer should be distinctly different if such drugs are managed by way of prescription medicine or non-prescription medicine.

According to the Provisions for the Administration of Drug Packaging (《藥品包裝管理辦法》), the packaging for drugs sold in PRC must comply with national or professional standards. If no such standards exist, the drug packaging standards should be established by the manufacturer and implemented after such standard has been approved by a provincial office of the CFDA or the standardization administration. If any packaging standards need to be revised, such manufacturer must apply to the relevant authorities. No drugs without any packaging may be sold in PRC (except such drugs as specially required by the military).

PRC LAW AND REGULATIONS IN RELATION TO EXPORTING INSULIN RELATED APIS TO OVERSEAS MARKETS

In the PRC, human recombinant insulin and insulin analogues are classified as peptide hormone.

According to the Administrative Measures on the Import and Export of Anabolic Agents and Peptide Hormones (《蛋白同化製劑和肽類激素進出口管理辦法》) which came into force on 1 December 2014 (the No. 9 Order by the CFDA, the General Administration of Customs and the General Administration of Sport of China), an exporter must apply to the CFDA at the provincial level of the place where such exporter is located if such exporter wishes to export anabolic agents and peptide hormones and the provincial office of the CFDA should determine if such export may proceed within 15 working days; if an approval for export is granted, the CFDA at the provincial level should issue an Export License (《出口准許證》); if the application is rejected, a written reply should be given with the reasons for such rejection. The exporter may go through the customs declaration formalities on the strength of the Export License issued by the CFDA at the provincial level.

According to the Notice on the Division of Regulatory Powers of the Food and Drug Administration of Hubei Province (on a trial basis) (Eshiyaojianwen [2014] No. 29) (《關於印發〈湖北省食品藥品監管事權劃分意見(試行)〉的通知》(鄂食藥監文[2014]29號)) issued by the CFDA of Hubei Province on 24 March 2014, the CFDA of Hubei Province has delegated its counterparts at a municipal (autonomous prefecture) level to issue the Export License in respect of anabolic agents and peptide hormones.

PRC LAW AND REGULATIONS IN RELATION TO COMMERCIAL BRIBERIES WITH RESPECT TO PHARMACEUTICAL INDUSTRY

According to the Regulations on the Establishment of Adverse Records With Respect to Commercial Bribery During Medicine Purchase and Sale (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》), any of the following activities of a drug, medical device and medical consumables producer, an operating enterprise or an agent or an individual should be contained in the adverse records with respect to commercial bribery if such producer, enterprise, agent or individual gives to any working staff of a medical institution any items of value or other benefits: the activities of such producer, enterprise, agent or individual are determined by a People's Court to constitute a crime of bribery, but the People's Court considers that the circumstances are minor and do not requirement punishment, therefore exempting such producer, enterprise, agent or individual from any criminal punishment according to the criminal law; the bribery is minor and a People's Procuratorate decides not to prosecute; a disciplinary inspection authority investigates and handle such activities of bribery in accordance with law; such producer, enterprise, agent or individual are punished by such administrative departments as the finance administration, industrial and commercial administration or the CFDA for any briberies; any other circumstances as provided in the laws, rules and regulations. If a drug manufacturer is listed in such adverse record with respect to commercial bribery, no public medical institutions or any other medical institutions which receive public subsidy at the place where such manufacturer is located may purchase any of its products from such manufacturer within two years after the name list with commercial bribery has been published, while other public medical institutions or any other medical institutions which receive public subsidy in any other provinces or regions will reduce scores with respect to such manufacturer when an evaluation is made in respect of any tender for or purchase of any drugs. If a drug manufacturer is listed in such adverse record with respect to commercial bribery more than two times (including two times) in a period of five years, no public medical institutions or any other medical institutions which receive public subsidy throughout PRC may purchase any of its products from such manufacturer within two years after the name list with commercial bribery has been published.

PRC LAW REGULATIONS IN RELATION TO THE NATIONAL MEDICAL INSURANCE PROGRAMME AND PRICE CONTROLS OF PHARMACEUTICAL PRODUCTS.

National List of Essential Drugs

The Measures on the Management of the National List of Essential Drugs (《國家基本藥物目錄管理辦法》), established the National List of Essential Drugs and the PRC's Essential Drugs Working Committee is responsible for the principles, scope, procedures and work plan in which the National List of Essential Drugs is selected and adjusted, and is also responsible for any review of the National List of Essential Drugs. Essential drugs mean such drugs which meet the basic requirements for medical care and are available to the general public at reasonable prices. Such drugs must also have appropriate dosages and are readily suppliable.

The National List of Essential Drugs (2012 version) (《國家基本藥物目錄》(2012版)) became effective from 1 May 2013. Any basic medical institutions (mainly including hospitals at a county level, traditional Chinese medicine hospitals at a country level, health clinics in villages and towns and community outpatient clinics) should be equipped with and use the drugs contained in the National List of Essential Drugs (《國家基本藥物目錄》) and various other medical institutions should also use such essential drugs in accordance with applicable regulations. The drugs contained in the National List of Essential Drugs must be procured through centralised tender procedures. The drugs for treatment contained in the National List of Essential Drugs are also included in the National Medical Insurance Drug Catalogue (《基本醫療保險藥品目錄》) and any purchases of such drugs may be reimbursed.

National Medical Insurance Drug Catalogue

According to the Notice on the Interim Measures on the Administration of the Drug Scope for Basic Medical Insurance of Employees in Cities and Towns (《關於印發城鎮職工基本醫療保險用藥範圍管理暫行辦法的通知》), the drugs included in the National Medical Insurance Drug Catalogue must be necessary, safe, effective, easy to use and commercially available at a reasonable price for clinical purposes and must satisfy at least one of the following requirements:

- contained in the pharmacopoeia of PRC;
- comply with the standards issued by the CFDA; and
- approved by the CFDA to be imported.

The MOHRSS and other governmental departments have the right to determine which drugs should be included in the National Medical Insurance Drug Catalogue (《國家基本醫療保險和工傷保險藥品目錄》). According to the National Medical Insurance Drug Catalogue issued by the original Ministry of Labour and Social Security of China on 13 September 2004, the National Medical Insurance Drug Catalogue is divided into two classes: Class A catalogue and Class B catalogue. A provincial government department must include all Class A catalogue drugs contained in the National Medical Insurance Drug Catalogue in the provincial catalogue of drugs for basic medical insurance and work-related injuries insurance but may adjust Class B catalogue accordingly. The sum of the number of drugs reduced or increased must not exceed 15% of the total number of Class B catalogue drugs contained in the National Medical Insurance Drug Catalogue. Therefore, the number of Class B catalogue drugs contained in a drug of catalogue for provincial basic medical insurance and work-related insurance may differ from province to province.

A patient will be reimbursed in full for any purchases of any Class A catalogue drugs contained the National Medical Insurance Drug Catalogue. As for any purchases of any Class B catalogue drugs contained in national medical insurance, such patient will have to bear part of the expenses, with the balance to be reimbursed. The amount to be borne by such patient differs from place to place in PRC.

Drug Price

According to Notice on the Opinion of the NHFPC Regarding the Reform of the Management of the Drug Prices (《國家計委印發關於改革藥品價格管理的意見的通知》), Notice of the State Development Planning Commission on Government Pricing of Drugs (《國家計委關於印發藥品政府定價辦法的通知》) and Notice on the Opinion of the Reform of the Formation Mechanism of Drugs and Medical Services (《關於印發改革藥品和醫療服務價格形成機制的意見的通知》), the retail price of a certain number of drugs, especially such drugs as contained in the National List of Essential Drugs and the National Medical Insurance Drug Catalogue or such drugs whose production or operation is deemed monopolised, is regulated by the PRC government, with the retail price or maximum price capped. The retail price of other drugs whose prices are not regulated would be determined by the relevant pharmaceutical company at its own discretion. No price regulation is imposed by the PRC government for a PRC drug manufacturer to export its drugs to any overseas markets.

The Drug Administration Law (amended in 2015) (《中華人民共和國藥品管理法》(2015年修訂)), which was issued and came into force on 24 April 2015, deleted the provisions contained in Article 55 of the original of Drug Administrations Law with respect to such drugs whose prices should be determined, guided, established and adjusted by the competent government authorities. Except for anesthetics and Class 1 psychotropic drugs, most of the price limits with respect to drugs in PRC will be lifted and China will build a market-oriented formation mechanism for drugs gradually and the actual drug trading price will come about through market forces.

On 4 May 2015, the NDRC, the National Health and Family Planning Commission of the PRC, the MOHRSS, the MOIIT, the MOF, MOFCOM and the CFDA jointly issued the Notice Regarding Reforms to the Price of Medical Products (the "**Notice**") (《關於印發推進藥品價格改革意見的通知》). According to the Notice, from 1 June 2015, except anesthetics and Class 1 psychotropic drugs, government pricing will be lifted and drug procurement mechanism will be improved; medical insurance will play its role to control medical expenses and the actual drug trading prices will come about mainly through market forces. In connection therewith, the medical insurance department will establish the procedures, basis and method together with other relevant departments in respect of any drugs covered by the medical healthcare insurance fund according to the payment standards for such medical healthcare insurance drugs, so as to explore a reasonable mechanism for determining drug price; for the purpose of patent drugs or drugs that are exclusively produced by a pharmaceutical company, a transparent price formation mechanism through negotiations will be established, with multiple parties participating in such negotiations; as for blood products, immunological drugs to be purchase by government, free AIDS antiviral treatment drugs and contraceptives, these are outside the scope of the National Medical Insurance Drug Catalogue, and their prices will come about through purchases by invitations to bid or through negotiations; anesthetics and Class 1 psychotropic drugs are still subject to price ceiling control at whole sale price level and retail price level; and any manufacturers may price other drugs by themselves according to their own operating costs and the market supply and demand situation. Any previous policies and regulations relating to drug price administration are revoked if such policies and regulations are not consistent with the Notice and the Notice shall take precedence over other policies and regulations.

CENTRALISED PROCUREMENT AND TENDER PROCESS IN RESPECT OF DRUG PURCHASES BY A HOSPITAL

According to the Opinion on the Guidance of the Reform of Urban Medical and Health Care System (《關於城鎮醫藥衛生體制改革的指導意見》) and the Opinion on the Implementation of Classification Management of Urban Medical Institutions (《關於城鎮醫療機構分類管理的實施意見》), a medical institution must be defined as a for-profit or non-profit institution at the time when it is established. A non-profit medical institution is established to provide services to the general public, with its revenue used for maintaining and developing such institution, while a profit medical institution is established by investors for the purpose of investment return. The PRC government does not establish any profit medical institutions, while non-government entities may establish profit medical institutions. Any non-profit medical institutions must implement a centralised tender system in respect of any drug purchases and any profit medical institutions need not to implement such a system according to PRC law.

According to the Notice on the Trial Implementation of the Centralized Tender with Respect to Drug Purchases by Medical Institutions (《關於印發醫療機構藥品集中招標採購試點工作若干規定的通知》), the Notice on the Further Standardizing of the Centralised Tender with respect to Drug Purchases By Medical Institutions (《關於進一步做好醫療機構藥品集中招標採購工作的通知》) and the Opinions concerning Further Regulating Purchase of Medicines by Medical Institutions through Centralized Tendering (《關於進一步規範醫療機構藥品集中採購工作的意見》), any non-profit medical institutions established and/or controlled by any government at a county level or above must implement the centralised tender system in respect of any purchase of any drugs which are contained in the National Medical Insurance Drugs Catalogue and generally used for clinical purposes and purchased in relatively large amount.

The Good Practice of Medical Institutions with respect to Centralised Procurement of Drugs (《醫療機構藥品集中採購工作規範》) provides stipulations in detail in respect of the centralised procurement catalogue and methods, procedures, evaluators, expert database construction and management of drugs, further regulating the centralised drug procurement and clarifying the code of conduct on the part of purchasing parties. According to the Good Practice of Medical Institutions with respect to Centralised Procurement of Drugs, any non-profit medical institutions established by the government at the county level or above or state-owned enterprises (including stock-holding enterprises) must participate in the centralised procurement of medical institutions. The centralised procurement management authority at provincial (municipal or district) level is responsible for compiling the catalogue of drugs for centralised procurement by medical institutions within its own administrative region, and narcotic drugs and first class psychoactive drugs with respect to which the special administration is carried out by the state are not included in such catalogue for centralised procurement; second class psychoactive drugs, radioactive pharmaceuticals, toxic drugs for medical use, crude drugs, traditional Chinese medicinal materials and traditional chinese medicine decoction pieces may be excluded from such catalogue for centralised procurement. All drugs (other than those listed above) used by the medical institutions must be included in

the catalogue for centralised procurement. The drugs included in such catalogue must be procured by way of open tender, invitation tenders or direct purchase. A provincial government must decide on the method for centralised procurement according to actual circumstances. For the centralised procurement by army and armed police medical institutions, the method for centralised procurement of drugs is to be established by the competent health authorities of the People's Liberation Army of China.

According to the Guidance Opinion of the General Office of the State Council on the Improvement of the Drug Centralised Procurement Work of Public Hospitals (《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》), the centralised procurement work of public hospitals will be improved through the classification purchase of drugs. All drugs used by public hospital (with the exception of traditional Chinese medicine decoction pieces) should be procured through a provincial drug centralised purchase platform. The provincial procurement agency should work out a summary of the procurement plans and begets submitted by hospitals and compile reasonably a drug procurement catalogue of the hospitals with its own administration region, listing by classification the drugs to be procured through bids, negotiations, direct purchases by hospitals or to be manufactured by appointed manufacturers.

PRC LAWS AND REGULATIONS IN RELATION TO THE PROTECTION OF PHARMACEUTICAL PRODUCTS

Intellectual Property

Patents

According to the Patent Law of the PRC (《中華人民共和國專利法》), there are three kinds of patent protection: patent for an invention, patent for utility models and design patent. The patent term for a patent for an invention is 20 years as from the date when an patent application is submitted; the patent term for a patent for utility models or a design patent is 10 years as from the date when a patent application is filed and such patent becomes effective after the State Intellectual Property Office makes an announcement of approval. If any persons or entities use such patent or do any other acts which infringe the patent rights without any authorization of such patent owners, such persons or entities will be liable to indemnify such patent owners and will be fined or be investigated for criminal responsibility (as appropriate) by any administrative authorities (depending upon the circumstances).

Trademarks

According to the Trademark Law of the PRC (《中華人民共和國商標法》), the SAIC is responsible for the registration and administration of trademarks across the country. The term of a registered trademark is 10 years as from the date on which it is registered and may be extended thereafter, with each extension for 10 years. If any persons or entities use such registered trademarks or do any other acts which infringe the rights to such trademarks without any authorization of the holders of such registered trademarks, such persons or entities will be liable to indemnify such trademark holders and will be fined or be investigated for criminal responsibility (as appropriate) by any administrative authorities (depending upon the circumstances).

Product Liability and Consumer Protection

According to the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), if any defective products sold cause any property losses or personal injuries to consumers, the producer and distributors should be liable for compensation. According to the Product Quality Law of the PRC (《中華人民共和國產品質量法》), the earnings made by the producer and the distributors from sales of any defective products may be confiscated and the business license of such producer or distributors may be revoked; and if the case constitutes a crime, the offender will be investigated for criminal responsibility according to the law.

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》) is designed to protect the legitimate rights and interests of consumers when such consumers purchase or use any goods or accept any services and all operators must comply with such law when they produce or sell any goods or provide any services to customers. A consumer has the right to safety of person and property guaranteed in the purchase or use of a commodity or receipt of a service and also has the right to the knowledge of the true facts concerning commodities purchased and used or services received. If any personal injuries or property losses are suffered as a result of any defective commodities, a consumer or other aggrieved parties may require the seller to compensate, but they may also require the producer to compensate. Where the responsibility lies with the producer, the seller, after settling the compensation, has the right to recover from the producer. Where the responsibility lies with the seller, the producer, after settling the compensation, has the right to recover such compensation from the seller.

According to the Tort Law of the PRC (《中華人民共和國侵權責任法》), a producer must be liable for any losses caused to others as a result of any defective products and the aggrieved parties may recover any indemnifications from the producer or the seller for any such losses. If any product defects originate from the negligence on the part of the producer or any other third party, the seller may recover the amount equivalent to the amount of compensation from such producer or third party after such compensation has been paid; if any product defects originate from the negligence on the part of the seller or any other third party, the producer may recover the amount equivalent to the amount of compensation from such seller or third party after such compensation has been paid. If a producer knows that the products are defective but continues to produce and sell, such that any death or severe damage to health is caused, the infringed has the right to claim appropriate punitive damages.

OTHER LAWS AND REGULATIONS

Labour Protection and Social Insurance

According to the Labour Law of the PRC (《中華人民共和國勞動法》), the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) and the Regulations on the Implementation of the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), an employer must enter into a written labour contract with any employees and the wage or salary must not be lower than the local minimum wage or salary. In addition, an employer must establish a system related to occupation health and safety, provide job training for employees to avoid occupational hazards and protect the rights of employees. When an employer recites any employees, such employer must inform the employees of the work content, work conditions, work place, occupational hazards, safety conditions and labour compensations.

According to the Law of the PRC on Safe Production (《中華人民共和國安全生產法》), a manufacturing enterprise must comply with the laws, rules and regulations related to safe production, strengthen the safety management, establish and improve the safety production responsibility system, improve the conditions for safe production and promote the work safety standardisation so as to improve and ensure safe production. No production is allowed if such manufacturing enterprise has no such safe working conditions in place as provided by the laws, rules and regulations. The manufacturing enterprise must enter into a labour contract with its employees, which contract must contain all matters related to protection of labour safety for the employees and other matters with respect to work-injury insurance handled by the manufacturing enterprise according to the law.

According to GMP, a drug manufacturer's production equipment and production processes must be established in accordance with relevant safe production and labour protection standards.

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), the Provisional Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), the Provisional Measures on Maternity Insurance of Enterprise Employees (《企業職工生育保險試行辦法》), the Regulations on Unemployment Insurance (《失業保險條例》) and the Regulations on Work Related Injuries (《工傷保險條例》), an employer must make contributions to a number of social security funds for its employees, including the basic pension insurance, basic medical insurance, maternity insurance, unemployment insurance and work-related injury insurance. According to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), an employer must open a housing fund account with the department responsible for the management of housing fund for its employees and make contributions to such housing fund.

Environment Protection

The Ministry of Environment Protection is responsible for the overall supervision and management of the environment across the country and for the establishment of the national environmental quality standards, pollution discharge standards and a system for the supervision of the environment in China.

While the Ministry of Environment Protection formulates national environmental quality standards, provincial governments may establish local environment quality standards if no provisions have been made in the national standards with respect to any pollutants discharge. A provincial government may establish any local environmental quality standards stricter than the national environmental standards in respect of any environmental items and such local environmental quality standards shall be filed with the Ministry of the Environment Protection for record.

According to the Environment Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Detailed Rules for the Implementation of the Water Pollution and Control Law of the PRC (《中華人民共和國水污染防治法實施細則》), the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and Law of the PRC on Prevention and Control of Pollution From Environmental Noise (《中華人民共和國環境噪聲污染防治法》), any facilities which are used to prevent and control pollution for a construction project should designed, constructed and used at the same time when the main part of a project is designed, constructed and used. Such prevention and control facilities must be in compliance with the requirements of the environment evaluation documents approved and such facilities must not be removed or leave unused. An enterprise must report to and record with the administrative environmental protection authorities in respect of any pollutant discharge. Such enterprise must comply with the national and local discharge standards in its daily operations in respect of water pollutants, solid waste, exhaust gas, noise and other pollutants.

According to the Law of the PRC on Environmental Impact Assessment (《中華人民共和國環境影響評價法》), the Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》) and the Classification Management Directory of the Construction Project Environmental Impact (as amended in 2015) (《建設項目環境影響評價分類管理名錄(2015修訂)》), classification management is implemented in respect of any environmental impact of a construction project on the basis of degree of such impact of the construction project on the environment. The environmental impact assessment of the construction project should be made by a qualified institution by preparing an environmental impact report, an environmental impact report form or an environmental impact registration form on the basis of the following principles: (1) an environmental impact report should be prepared to assess such environmental impact in an overall manner if a construction project may have a material environmental impact; (2) an environmental report form should be prepared to analyse or assess in respect of a special item which will produce an environmental impact if a construction project may have a minor environmental impact; (3) no environmental impact assessment is required if a construction project has a minimum environmental impact, but an environmental impact registration form should be completed. No construction project should commence if the environmental impact assessment documents for the construction project have been approved by the relevant competent environment authorities. After the construction is completed, the constructor should apply to the competent environment authorities for an examination and acceptance of the

environment protection facilities as an integrated construction for the main part of the construction project. The environment protection facilities should be inspected and accepted as the same time when the main part of the construction project is inspected and accepted. If a construction project is built, put into production or used by stages, the corresponding environment protection facilities should also be inspected and accepted by stages.

Foreign Exchange Control

Renminbi is the legal currency of PRC and is not freely convertible due to foreign currency control. The SAFE is responsible for any and all matter related to foreign exchange, including the implementation of foreign exchange control regulations.

The Regulations of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) distinguish international payments and transfers made under the current account from those made under the capital account. China does not impose any restrictions on international payments and transfers under the current account, whilst international payments and transfers under the capital accounts are subject to an approval from the SAFE.

According to the Regulations of the PRC on Foreign Exchange Administration, any foreign exchange receipts under the current account may be kept or sold to a financial institution which operates foreign exchange settlement or selling business. Approval is required from the administration of foreign exchange if any foreign exchange receipts under capital accounts are to be kept or sold to a financial institution which operates foreign exchange settlement or selling business, unless the state regulations provide that no approval is required. When an enterprise in PRC (including a foreign invested enterprise) is engaged in transactions in respect of any items under the current account, it may make payments in foreign exchange through its own foreign exchange account or convert RMB into foreign currencies and make payments in foreign currencies through a designated foreign exchange bank without any approval from the SAFE, but such enterprise must provide valid transaction receipts and evidence. If a foreign invested enterprise requires a foreign currency to distribute profits to its shareholders or a Chinese enterprise requires a foreign currency to pay dividends to its shareholders according to the relevant regulations, such enterprise may make such payment through its own foreign exchange account or make such conversion and payment in foreign currencies through a designated foreign exchange bank according to the resolutions of the general meeting of shareholders or the resolutions of the board of directors after it has submitted the required evidentiary materials. Foreign exchange conversion is still restricted in respect of any direct investments or capital injections under the capital account and a prior approval must be obtained from the State Administration of Foreign Exchange or its relevant branches.

The Notice of the State Administration of Foreign Exchange on Several Issues Concerning the Administration of Foreign Exchange of Companies Listed Overseas (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) provides:

The SAFE and its branches (Foreign Exchange Bureaus) supervise, administer and examine the domestic companies listed overseas in respect of the business registration, account establishment and use, cross-border receipts and payments and funds transfers of such companies.

A domestic company must complete the overseas listing with the Foreign Exchange Bureau of the place where it is incorporated within 15 working days after its initial IPO for overseas listing. Such domestic company may proceed to start overseas listing on the strength of the overseas listing registration certificate issued by the Foreign Exchange Bureau.

The funds raised by a domestic company through overseas listing may be transferred to the domestic special account or deposited in a special overseas account and the use of proceeds should be in compliance with such purpose as set out in the share or bond prospectus of the company, the shareholders' circular, the resolutions of the general meeting of the shareholders and other documents disclosed. The funds raised by the company through the issuance of the bonds convertible into the shares of such company must be transferred to the special account for external debt and used according to the relevant regulations if such company wishes to transfer such funds into PRC; the funds raised by any other forms of securities must be transferred to the domestic special account for the company listed overseas if such company wishes to transfer such funds into PRC.

A domestic company may apply the overseas funds that are in compliance with the relevant regulations towards the repurchase of its overseas stocks or remit funds out of China for such purpose. If any funds are required to be remitted out of China, such company may complete the formalities with a bank in respect of transferring the funds to the domestic special account for repurchase and transferring such funds overseas on the strength of the overseas listing registration certificate with the information about the relevant repurchase. After the completion of such repurchase, any balance of the funds remitted from China to overseas for the purpose of repurchase must be transferred to the domestic special account for repurchase.

If a domestic shareholder increases its holdings in a domestic company listed overseas according to relevant regulations, such shareholder may apply the overseas funds that are in compliance with the relevant regulations or remit funds out of China for such purpose. If any funds are required to be remitted out of China, such shareholder may complete the formalities with a bank in respect of transferring the funds to its domestic special account for the increased holdings and transferring such funds overseas on the strength of the proof the shareholding in such company listed overseas. After the completion of such increase in the shareholding, any balance of the funds remitted from China to overseas for the purpose of increase in shareholding must be transferred to the domestic special account for the increased holdings.

Any receipts in respect of any shareholding reduction, assignment of any overseas shares in a domestic company or the delisting of a domestic company from an overseas securities market must be transferred to the domestic special account for shareholding reduction within two years as from the date when such receipts are obtained.

According to the Decision of the State Council on Revocation and Adjustment of a Number of Items Requiring Administrative Approval (《國務院關於取消和調整一批行政審批項目等事項的決定》) (issued and became effective on 24 November 2014), the State Administration of Foreign Exchange and its branches have cancelled the requirements for examination and approval of foreign exchange repatriation and settlement in respect of any funds under any foreign shares in a domestic company listed overseas.

United Nations Anti-Corruption Convention

China is a contracting party to the United Nations Anti-Corruption Convention (《聯合國反腐敗公約》), a multilateral convention which was adopted at the United Nations general assembly on 31 October 2003. This convention provides that all contracting parties should implement anti-corruption standards and amend the laws, constitutions and practices, with the purpose designed to promote the prevention, discovery and sanction of corruption and to strength the cooperation among the ratifying states in relation to relevant matters. As at the Latest Practicable Date, the United Nations Anti-Corruption Convention has been ratified by 177 countries. China submitted its instrument of ratification for this convention to the United Nations on 13 January 2006, with certain reservations about Article 66.2. The Convention became effective for China on 12 February 2006.

HISTORY AND BUSINESS DEVELOPMENT

Our Company was established as a joint stock limited company under the PRC Company Law on 11 May 2015, converting from our predecessor Yichang Changjiang Pharmaceutical Co., Ltd.. The Group mainly engages in the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases, cardiovascular diseases and others.

Our Group's history dates back to August 2001, when our predecessor was first established as a foreign-invested company in the PRC with a registered capital of RMB30 million. Shenzhen HEC Industrial and North & South Brother International Investment H.K. Co. Limited ("**North & South Brother (HK)**") were the two shareholders of our predecessor, holding its 75% and 25% equity interest, respectively. Since the establishment of our predecessor and to expand its business operation, Shenzhen HEC Industrial and North & South Brother (HK) undertook several capital injections into our predecessor in proportion to their respective shareholding. As at August 2009, the registered capital of our predecessor was RMB170.8 million.

In December 2009, to streamline the business operation of Shenzhen HEC Industrial, Shenzhen HEC Industrial transferred its 75% equity interests in our predecessor to the Parent Company, which is the main platform for Shenzhen HEC Industrial to carry out its pharmaceutical business, for a consideration of RMB128,100,000, representing the total capital contributed by Shenzhen HEC Industrial in our predecessor at that time.

In January 2015, North & South Brother (HK) transferred its 25% equity interests in our predecessor to North & South Brother Pharma for a consideration of approximately RMB72.08 million. The consideration equals to the amount of the audited net assets value of our predecessor as at 31 October 2014 after deducting any dividend declared before that date. Both North & South Brother (HK) and North & South Brother Pharma are entities incorporated in Hong Kong and indirectly wholly-owned by Mr. MO Kit.

As advised by our PRC legal adviser, the establishment, capital increases and each of the above transfer have been approved by competent authorities and were in compliance with applicable laws and regulations in the PRC.

After completion of the above transfers, our Parent Company and North & South Brother Pharma owned 75% and 25% of the equity interest in our predecessor, respectively. On 15 April 2015, in preparation for the Global Offering, our Parent Company and North & South Brother Pharma signed a promoters' agreement, pursuant to which, our predecessor was converted into a joint stock limited company.

Milestones in Our History

We have achieved the following important milestones in our development into a pharmaceutical manufacturing company in the PRC.

2001	We entered into the PRC pharmaceutical manufacturing industry by establishing our predecessor in Hubei Province.
2006	We are licensed by Oseltamivir Phosphate Licensor to manufacture oseltamivir phosphate products in the PRC.
2008	Our Kewei product in granules form was registered with CFDA.
2009	Our anti-influenza virus product, Kewei was selected into Central Medical Reserve (中央醫藥儲備基地)
2013	Our Kewei recorded the largest market share in the oseltamivir phosphate product in the PRC.
2015	Our Company was established as a joint stock limited company upon completion of the Reorganisation.

OUR SUBSIDIARY

Our wholly-owned subsidiary, Yichang HEC Pharmaceutical, was incorporated in the PRC on 8 July 2005 with a registered capital of RMB2 million. It was established as our platform for the promotion and sales of our pharmaceutical products. Since its establishment and up to the Latest Practicable Date, the registered capital of Yichang HEC Pharmaceutical remained unchanged.

OUR DONGGUAN BRANCH OFFICE

The Dongguan branch office of our Company was established on 25 May 2015 in accordance with applicable laws and regulations in the PRC. The business scope of the Dongguan branch office of our Company is for the production, distribution and sales of pharmaceutical products.

REORGANISATION

We underwent our Reorganisation in preparation for the Global Offering. Pursuant to the equity transfer agreement entered into on 12 September 2014, we transferred the entire equity interest in Ruyuan HEC Pharma to our Parent Company for a consideration of RMB100 million, representing the total capital contributed by us in Ruyuan HEC Pharma.

The businesses of Ruyuan HEC Pharma are not inherently related to and do not compete with our business operations. As at the time of the transfer, Ruyuan HEC Pharma was engaged in sales of certain APIs and was loss-making. The APIs sold by Ruyuan HEC Pharma differ from the APIs sold by us in the following ways:

- The APIs produced and sold by us are necessary for the production of our core products while the APIs sold by Ruyuan HEC Pharma are not ingredients required for our products; and

- The APIs sold by Ruyuan HEC Pharma cannot substitute any of those APIs produced and sold by our Company.

Accordingly, we disposed of Ruyuan HEC Pharma to our Parent Company so as to focus on our core business operations.

Non-competition Agreement

We have entered into a non-competition agreement with our Controlling Shareholders. Pursuant to the non-competition agreement, each of the Controlling Shareholders has agreed not to, and to procure its subsidiaries (other than our Group) not to, compete with us in our businesses**.** Please see the section headed "Relationship with our Controlling Shareholders" for detail.

Approvals

The Reorganisation was approved by relevant PRC authorities. Our PRC legal adviser confirmed that we had obtained all necessary approvals from the relevant PRC government authorities with respect to the Reorganisation.

BACKGROUND OF OUR FOUNDER

Our founder, Mr. Zhang, is a successful entrepreneur in various industries in the PRC, including the manufacturing and supplying of pharmaceuticals and aluminium products, new energy and electric materials. Mr. Zhang started his business in 1996 by establishing Shenzhen HEC Industrial, focusing on the electric material market, and gradually expanded his businesses into new energy, electric materials, pharmaceutical manufacturing, cultural tourism, investment management and other industries. Mr. Zhang attaches great importance to the value of research, and established a research institute covering areas of pharmaceuticals, new energy and new electrical material. As at the Latest Practicable Date, Mr. Zhang and Ms. Guo, the spouse of Mr. Zhang, through Shenzhen HEC Industrial, indirectly controls approximately 35.83% of the equity interests in Guangdong HEC Technology. Guangdong HEC Technology is a company listed on the Shanghai Stock Exchange and is mainly engaged in the supplying of electric materials, new materials and new energy. Immediately upon completion of the Global Offering and assuming no exercise of the Over-allotment Option, our ultimate Controlling Shareholders, Mr. Zhang and Ms. Guo, through our Parent Company, will control approximately 49.93% of our equity interest.

Mr. Zhang does not hold any directorship or senior management roles in our Group or in Guangdong HEC Technology. Mr. Zhang has chosen not to hold any directorship or senior management roles in our Company as he believes that our Company has a management team consisting of high-calibre personnel with sufficient experience in the relevant business. As a successful entrepreneur in the PRC, Mr. Zhang has diversified business interests and he would like to avail himself of more time and energy in research and developing business strategies as well as venturing into new business opportunities. Mr. Zhang has confirmed to our Company that neither himself nor any of his immediate family members are in any way prohibited from acting as director of a listed company in Hong Kong or have been the subject of any regulatory probe relating to their respective integrity or competence.

PRE-IPO INVESTMENT

On 5 June 2015, Ample Market Investment Limited, Champion Zone Investment Limited, M.R. Pharma (H.K.) Limited, Splendid Healthcare Limited, Watertower Investment Limited and Wealth Strategy Holding Limited (collectively, the "**Pre-IPO Investors**") and our Company entered into a capital increase agreement (the "**Pre-IPO Investment Agreement**") for the purpose of implementing the Pre-IPO Investment.

Our Directors are of the view that the Pre-IPO Investment will broaden our Shareholders' base and further improve our corporate governance and internal control, which in turn will benefit the Company and our Shareholders as a whole.

Subscription for Shares under the Pre-IPO Investment

Pursuant to the Pre-IPO Investment Agreement, the Pre-IPO Investors subscribed for, and the Company issued and allotted 60,527,450 Shares to such Pre-IPO Investors for a consideration of RMB517,086,000. The completion of the Pre-IPO Investment took place on 29 June 2015. Brief details of the Pre-IPO Investment are as follows:

Pre-IPO Investors	**Ample Market Investment Limited**	**Champion Zone Investment Limited**	**M.R. Pharma (H.K.) Limited**	**Splendid Healthcare Limited**	**Watertower Investment Limited**	**Wealth Strategy Holding Limited**
Number of Shares subscribed	23,847,914	11,959,765	8,193,843	7,161,536	5,852,745	3,511,647
Total consideration to be paid under the pre-IPO Investment Agreement[(1)] (RMB)	203,732,730	102,172,270	70,000,000	61,181,000	50,000,000	30,000,000
Basis of determination of consideration	The consideration was arrived at through arm's length negotiation between the parties with reference to a post-money valuation of our Group of RMB3.08 billion.					
Effective purchase cost per Share	RMB8.5430					
Payment date	29 June 2015					
Percentage shareholding of the Pre-IPO Investor immediately following completion of the Pre-IPO Investment	6.61%	3.32%	2.27%	1.99%	1.62%	0.97%
Percentage shareholding of the Pre-IPO Investor immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	5.29%	2.65%	1.82%	1.59%	1.30%	0.78%
Discount to the mid-point of indicative offer price	35.73%					
Use of proceeds	The Pre-IPO Investment Agreement was silent on the use of proceeds[(2)].					
Lock-up	The Shares subscribed by the Pre-IPO Investors will be subject to one-year's lock-up starting from the Listing Date as required under the PRC Company Law.					
Public float	The Pre-IPO Investors will hold unlisted foreign Shares immediately upon completion of the pre-IPO Investment. Upon Listing, the unlisted foreign Shares will be converted into H Shares to be listed and traded on the Stock Exchange. After conversion, those Shares subscribed by the Pre-IPO Investors pursuant to the Pre-IPO Investment will be counted as part of the public float of the Company.					

Notes:

(1) All amounts are paid in foreign currency. The actual total amount received was RMB8,000 higher than the amount prescribed under the Pre-IPO Investment Agreement. The reason for such immaterial discrepancy is due to change in exchange rate.

(2) We intend to use the proceeds (i) to settle part of the consideration under the agreement with Sunshine Lake Pharma in relation to yimitasvir phosphate and follow-up direct anti-viral agent compounds; (ii) to purchase raw materials required for our business operation; (iii) to repay outstanding loans and (iv) for general working capital purposes. As at the Latest Practicable Date, an aggregate amount of RMB292,822,842 had been used, among which, RMB290,000,000 was used to settle the consideration under the agreement with Sunshine Lake Pharma in relation to yimitasvir phosphate and follow-up direct anti-viral agent compounds and RMB2,822,842 was used for the purchase of raw materials required for our business operation.

No special right or obligation was attached to the pre-IPO Investment.

Background of our Pre-IPO Investors

Ample Market Investment Limited is a company incorporated in Hong Kong in 2012, which is principally engaged in the business of investment holding. Ample Market Investment Limited is directly wholly-owned by Silver Knight Investment Ltd. (Cayman). New Horizon Master IV Investment Ltd. (Cayman), Morgan Creek Partners Co-Investment Fund III, LP, Hattera Master Fund, LP., Morgan Creek Partners VI LP and Apsif Investment Ptd Ltd held 45%, 1.92%, 1.92%, 0.96% and 50.2% of the equity interest in Silver Knight Investment Ltd. (Cayman).

Champion Zone Investment Limited is a company incorporated in Hong Kong in 2012, which is principally engaged in the business of investment holding. Champion Zone Investment Limited is directly wholly-owned by Kingsley Investment Ltd. (Cayman), which was in turn indirectly wholly-owned by Raisson Capital. L.P. (Cayman).

M.R. Pharma (H.K.) Limited is a company incorporated in Hong Kong in 2005 which is principally engaged in pharmaceutical and intermediate international trading. Its ultimate controlling shareholder is Mr. Hon To.

Splendid Healthcare Limited is a company incorporated in 2015 in Hong Kong, which is principally engaged in investment business. Its ultimate controlling shareholder is China Everbright Limited, a Hong Kong listed company.

Watertower Investment Limited is a company incorporated in Hong Kong in 2014, which is principally engaged in investment business. Its ultimate controlling shareholder is Mr. CHENG Lam Tung, Don.

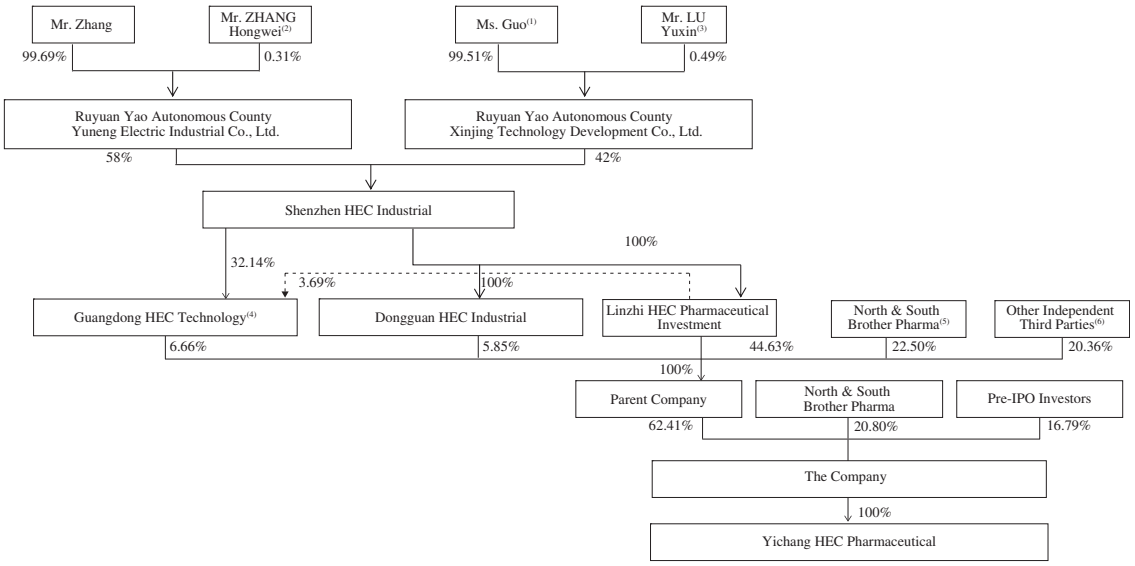
Wealth Strategy Holding Limited is a company incorporated in Hong Kong in 2014, which is principally engaged in investment business. Its ultimate controlling shareholder is Mr. Kung Hung Ka.

To the best knowledge of our Directors, each Pre-IPO Investor is an Independent Third Party to the Company and the Controlling Shareholders (other than being Shareholder of the Company pursuant to the Pre-IPO Investment Agreement). To the best knowledge and belief of our Directors, the Pre-IPO Investors made such investments in our Group based on their expectations of our growth potential and prospects.

Our Directors confirm that the Pre-IPO Investment was entered into on normal commercial terms. The Sole Sponsor is of the view that the Pre-IPO Investment is in compliance with the Interim Guidance on Pre-IPO Investments (HKEx-GL29-12), Guidance Letter on Pre-IPO Investments (HKEx-GL43-12) and Guidance Letter on Pre-IPO Investments in Convertible Instruments (HKEx-GL44-12).

OUR CORPORATE STRUCTURE

The following chart sets out our ownership and corporate structure as at the Latest Practicable Date:



Notes:

(1) Ms. Guo is the spouse of Mr. Zhang.

(2) Mr. ZHANG Hongwei is an Independent Third Party. Mr. ZHANG Hongwei currently acts as a director and the general manager of Guangdong HEC Technology, a company controlled by Mr. Zhang.

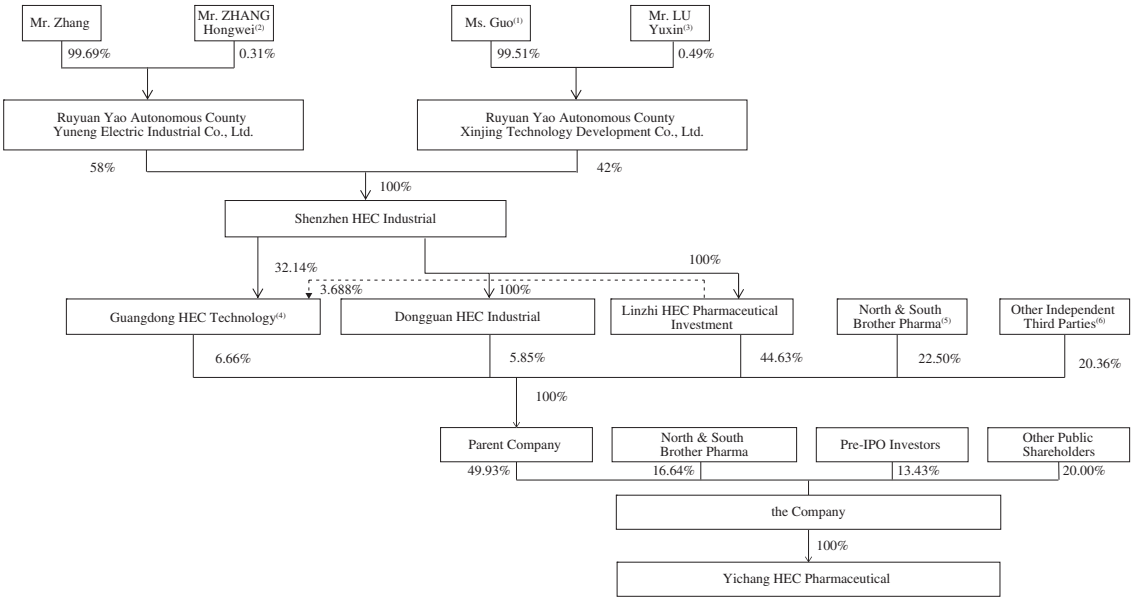
(3) Mr. LU Yuxin is the chairman of board of directors of our subsidiary. He also acts as a director and the general manager of Shenzhen HEC Industrial and the chairman of the board of directors of our Parent Company.

(4) The shares of Guangdong HEC Technology are listed and traded on the Shanghai Stock Exchange (stock code: 600673).

(5) North & South Brother Pharma is indirectly wholly-owned by Mr. MO Kit.

(6) Other Independent Third Party shareholders of the Parent Company include Linzhi County Fuguang Investment Management Co., Ltd. (林芝縣蚨光投資管理有限公司), which holds 20.00% equity interest in the Parent Company, and Dongguan Venture Capital Limited Partnership, which holds 0.36% equity interest in the Parent Company.

The following chart sets out our ownership and corporate structure immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised:



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(4) The shares of Guangdong HEC Technology is listed and traded on the Shanghai Stock Exchange (stock code: 600673).

(5) North & South Brother Pharma is indirectly wholly-owned by Mr. MO Kit.

(6) Other Independent Third Party shareholders of Parent Company include Linzhi County Fuguang Investment Management Co., Ltd., which holds 20.00% equity interest in the Parent Company, and Dongguan Venture Capital Limited Partnership, which holds 0.36% equity interest in the Parent Company.

OVERVIEW

We are a PRC pharmaceutical manufacturing company that focuses on the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases. According to PICO, in 2012, 2013 and 2014: (i) the anti-influenza virus product market accounted for 0.3%, 0.3% and 0.3% of the PRC pharmaceutical end market, respectively; (ii) the market share of Kewei (our anti-influenza virus product) accounted for 0.5%, 3.8% and 8.2% of the anti-influenza virus product market in the PRC, respectively; (iii) oseltamivir phosphate products accounted for 2.8%, 5.4% and 9.8% of the anti-influenza virus product market in the PRC, respectively; and (iv) our Kewei products accounted for 17.9%, 71.9% and 84.1% of the oseltamivir phosphate products market in the PRC, respectively.

According to PICO, we were ranked amongst the top four pharmaceutical manufacturing companies in 2014 in the anti-influenza virus product market in the PRC in terms of sales revenue, and we were ranked No. 1 in the oseltamivir phosphate product category in the PRC in terms of sales revenue in each of 2013 and 2014. Going forward, we intend not only to continue to maintain our strength in the anti-influenza virus therapeutic area but also to expand our product portfolio to cover other therapeutic areas which we believe have substantial growth potential, including digestive diseases.

Our current key therapeutic areas

Anti-virus

In relation to our anti-virus therapeutic area, in particular, our anti-influenza virus therapeutic area, we have Kewei (oseltamivir phosphate) products in capsule and granules form. Kewei is an anti-viral drug used for the treatment of influenza. We introduced our oseltamivir phosphate products to the PRC market in 2007 and have a proven track record of manufacturing and selling oseltamivir phosphate capsules. The granules form of Kewei was introduced by us in 2009 to target the paediatrics market for anti-influenza virus products in the PRC, in which we believe Kewei has a strong growth potential. In addition, we hold the patent to the granules form of this product in the PRC, which has allowed us to secure a strong position in the anti-influenza virus product market in the PRC. For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our turnover generated from our Kewei products was RMB9.2 million, RMB70.1 million, RMB194.5 million and RMB270.9 million, respectively, representing a CAGR of 359.8% from 2012 to 2014. We will continue to expand this therapeutic area by adding products for the treatment of Hepatitis C virus into our product portfolio.

Endocrine and metabolic diseases

In relation to our endocrine and metabolic diseases therapeutic area, Ertongshu (benzbromarone tablets) is our key product. Ertongshu is a drug used for the treatment of excess uric acid in blood (hyperuricemia). For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our turnover generated from the sale of

Ertongshu was RMB17.3 million, RMB23.3 million, RMB30.0 million and RMB14.8 million, respectively, representing a CAGR of 31.7% from 2012 to 2014. Going forward, we intend to expand our product portfolio in this therapeutic area by developing and introducing a number of insulin products for the treatment of diabetes.

Cardiovascular diseases

In relation to our cardiovascular diseases therapeutic area, Oumeining (telmisartan tablets) and Xinhaining (amlodipine besylate tablets) are our key products. Oumeining is an angiotensin II receptor antagonist used for the treatment of hypertension. Xinhaining is a calcium channel blocker that is used for the treatment of hypertension and other related cardiovascular diseases. For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our turnover generated from the sale of Oumeining and Xinhaining was RMB69.4 million, RMB69.4 million, RMB77.6 million and RMB38.1 million, respectively, representing a CAGR of 5.7% from 2012 to 2014.

Key products

According to PICO, our key products are well positioned in their respective product markets in the PRC. The table below sets out market positions of our key products.

Product	**Ranking and Market Share[1]**
Kewei (oseltamivir phosphate) (granules and capsules)	In respect of the sale of oseltamivir phosphate products in the PRC: 2014: No. 1 (84.1% of the oseltamivir phosphate product market) 2013: No. 1 (71.9% of the oseltamivir phosphate product market) 2012: No. 2 (17.9% of the oseltamivir phosphate product market)
Ertongshu (benzbromarone tablets)	In respect of the sale of benzbromarone products in the PRC: 2014: No. 3 (10.4% of the benzbromarone product market) 2013: No. 3 (10.5% of the benzbromarone product market) 2012: No. 3 (9.8% of the benzbromarone product market)

1 Based on retail prices and sales volume

Product	Ranking and Market Share[1]
Oumeining (telmisartan tablets)	In respect of the sale of telmisartan products in the PRC: 2014: No. 4 (7.0% of the telmisartan product market) 2013: No. 4 (6.6% of the telmisartan product market) 2012: No. 3 (6.6% of the telmisartan product market)
Xinhaining (amlodipine besylate tablets)	In respect of the sale of amlodipine besylate products in the PRC: 2014: No. 6 (2.3% of the amlodipine besylate product market) 2013: No. 5 (2.3% of the amlodipine besylate product market) 2012: No. 5 (2.5% of the amlodipine besylate product market)

Please refer to "Business – Our Products" for further details of our key products.

Products Under Development

We currently have a number of products under development in various therapeutic areas, including products for the treatment of endocrine and metabolic diseases, products for the treatment of digestive diseases and anti-viral products. We are particularly well positioned in developing our future products for the treatment of endocrine and metabolic diseases. We currently have three forms of insulin APIs under development, which we intend to develop into six different insulin finished products. This products portfolio will enable us to provide diabetic patients with comprehensive treatment options and allow us to acquire a certain share of the growing market for products for the treatment of diabetes in the PRC.

In the therapeutic area of products for digestive diseases, we intend to introduce a number of proton pump inhibitor (PPI) products that treat various digestive diseases. PPI products are one of the most commonly used drugs for the treatment of peptic ulcers in the PRC, and we believe that our upcoming products in this therapeutic area will allow us to have one of the most comprehensive PPI product portfolio in the PRC.

In the anti-viral therapeutic area, we have entered into an agreement with Sunshine Lake Pharma in which we have acquired the right to produce and sell yimitasvir phosphate products and follow-up direct anti-viral agent compounds worldwide upon completion of development.

[1] Based on retail prices and sales volume

Yimitasvir phosphate is an NS5A inhibitor used for the treatment of Hepatitis C viral infections. It is anticipated to be a National Class 1.1 drug and we believe it will be the first anti-Hepatitis C direct anti-viral agent (DAA) drug wholly developed by a PRC company. We believe that this will be an important drug for the treatment of Hepatitis C viral infections in the PRC in the future.

A summary of our key pipeline products in our key therapeutic areas are described in "Business – Future Products".

We currently have 18 key products at different stages of development. Such 18 key products not only cover the key therapeutic areas described above, but also cover therapeutic areas such as cardiovascular diseases, and new therapeutic areas such as diseases relating to the central nervous system. We also intend to acquire the rights to other new products from HEC Research Group pursuant to the Strategic Cooperation Agreement and through strategic acquisitions and licences from other third parties. We believe that our future products in the above key therapeutic areas will not only expand our product portfolio going forward but also become the foundation for further growth to our business and profitability.

Our strategic relationship with HEC Research Group

We have also entered into the Strategic Cooperation Agreement with Shenzhen HEC Industrial, which provides us with a pre-emptive right to acquire the products being developed by HEC Research Group. By reference to the number of patents filed in the PRC, HEC Research Group is one of the leading pharmaceutical research institutions in the PRC, with over 1,200 research fellows, including 19 overseas experts and 64 research fellows holding doctorate degrees.

The pharmaceutical research and development sector of the HEC group (now being HEC Research Group) was founded on the belief that science and technology are the primary driving forces for production, with research and development being an integral aspect of a manufacturer and is the fundamental driving force and soul to an enterprise's improvement and development. Through continuous development and innovation, the HEC Research Group believes that an enterprise can succeed in an intensely competitive market. It is based on these principles that the HEC Research Group was founded in 2005. HEC Research Group is controlled by Shenzhen HEC Industrial and does not form part of our Group.

The Strategic Cooperation Agreement allows us to have the opportunity to continue to acquire innovative drugs, biologics and generic drugs being developed by a leading PRC pharmaceutical research institution, paving a solid foundation for the continual expansion of our product portfolio.

Our distribution network and manufacturing facilities

We primarily sell our products within the PRC. We generate demand for our pharmaceutical products from hospitals and other medical institutions through our sales and marketing activities, including educational promotion activities, and generate revenue by selling our pharmaceutical products to GSP certified distributors who, in turn, sell our products to hospitals and other medical institutions. We develop our marketing and promotion strategies centrally in order to maximise our brand recognition and optimise our market position of our key products in the PRC. As at 30 June 2015, we had 179 sales and marketing staff and established relationships with 1,594 third party distributors, which covers all provinces and autonomous regions within the PRC. This provides us with an extensive distribution network for our products. During the Track Record Period, we also generated a small portion of our turnover through overseas sales of API.

We have obtained GMP certifications for the production of our current pharmaceutical products. All of our production facilities are located in Yidu, China. As our product portfolio continues to expand, we intend to increase our production capacity by constructing additional facilities and production lines and upgrading our current production equipment and facilities. We intend to construct a new oral formulation production plant at our vacant land at Yidu Base Area No. 3. Upon completion of the production plant, our production capacity is expected to increase by 1,000 million tablets per year, 500 million capsules per year and 200 million packets of granules per year. The increased capacity will allow us to satisfy anticipated increases in market demand for our key products such as Kewei, Oumeining, Xinhaining, Ertongshu and our future products. At the same time, we are planning to construct a new production factory for insulin glargine API and insulin aspart API at Yidu Base Area No. 3. Upon completion of this new production factory, we expect to increase our production capacity for insulin glargine API by 200kg per year and insulin aspart API by 450kg per year, which will allow us to satisfy future market demand.

For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our turnover was RMB269.2 million, RMB316.4 million, RMB440.9 million and RMB382.9 million, respectively, representing a CAGR of 28.0% from 2012 to 2014. For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our profit for the year/period attributable to equity shareholders of the Company was RMB23.0 million, RMB57.8 million, RMB135.3 million and RMB153.2 million, respectively, representing a CAGR of 142.5% from 2012 to 2014. For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our gross profit margin was 57.0%, 63.4%, 72.8% and 74.1%, respectively.

OUR COMPETITIVE STRENGTHS

We have a track record of developing, manufacturing and selling successful anti-viral products in the PRC. We are amongst the top four pharmaceutical companies in the PRC in the anti-influenza virus product market and our core product, Kewei (oseltamivir phosphate), is the leading product in the oseltamivir phosphate product market in the PRC.

Kewei (oseltamivir phosphate) is our leading product by revenue during the Track Record Period. According to PICO, our Kewei product accounted for 0.5%, 3.8% and 8.2% of the anti-influenza virus market in the PRC in 2012, 2013 and 2014, respectively, and we were ranked amongst the top four in the anti-influenza virus product market in the PRC. We are also the leading seller of oseltamivir phosphate products in the PRC by revenue in each of 2013 and 2014. In 2014 alone, according to PICO, we accounted for approximately 84% of the oseltamivir phosphate product market in the PRC.

In addition, we introduced to, and manufactured in the PRC market, the patent-protected granules form of oseltamivir phosphate (磷酸奧司他韋顆粒劑), which targets the paediatrics market in the PRC. In this respect, we are the only manufacturer of the granules form of oseltamivir phosphate in the PRC, which has allowed us to secure a strong position in the anti-influenza virus product market in the PRC. In 2014, our granules form of Kewei generated revenue of RMB119.8 million.

Oseltamivir phosphate is an orally administrated anti-viral medicine, which is generally used to treat influenza, including avian influenza. This medicine undergoes hydrolysis to form active oseltamivir carboxylate. Oseltamivir carboxylate acts by selective inhibition of influenza A and B viral neuraminidase. A lipophilic side chain of the active drug binds to the virus enzyme, blocking its ability to cleave sialic acid residues on the surface of the infected cell and resulting in an inability to release further viral particles.

The effectiveness of oseltamivir phosphate in the combat against different strains of influenza has been recognised internationally and in the PRC. Oseltamivir phosphate is listed as an "essential medicine" in the WHO Model List of Essential Medicines. It is also recommended by the CDC in the United States as one of the key anti-viral medicines for the treatment of influenza and by the ECDC in Europe for the treatment of influenza.

In the PRC, oseltamivir phosphate is recommended by NHFPC as the first choice medicine to treat H1N1 influenza, as well as H7N9 influenza. As a designated supplier of oseltamivir phosphate to the Central Medical Reserve (中央醫藥儲備基地), we have successfully supplied to the PRC Government and the military and have been recognised by them accordingly. In 2004, we participated in the oseltamivir phosphate research program conducted by the Poisons and Drugs Research Office of the Medical Science Academy of the PRC People's Liberation Army (中國人民解放軍軍事醫學科學院毒物藥物研究所), and were jointly responsible for conducting laboratory research, small scale production, medium scale production and commercial production in connection thereof. When the H1N1 influenza A

outbreak occurred and spread globally in April 2009, as the designated supplier, we actively cooperated with the Government's relevant taskforce and successfully supplied oseltamivir phosphate products to the military. We received written recognition from the NDRC in recognition of our efficient and timely supply of oseltamivir phosphate products after the outbreak of H1N1 influenza A.

For the three years ended 31 December 2012, 2013, 2014 and for the six months ended 30 June 2015, our turnover generated from Kewei was RMB9.2 million, RMB70.1 million, RMB194.5 million and RMB270.9 million, respectively, representing a CAGR of 359.8% from 2012 to 2014, and accounted for 3.4%, 22.2%. 44.1% and 70.7% of our turnover in each of these periods, respectively.

According to PICO, the PRC pharmaceutical market size for anti-influenza virus products is expected to grow from RMB3,578 million in 2014 to RMB5,300 million in 2019, with an estimated CAGR of 8.3% from 2014 to 2019. Combined with our leading position in the oseltamivir phosphate product market in the PRC, Kewei will continue to be a driver to our sales, business and profitability in the foreseeable future. Leveraging our leading market position and successful educational promotion activities in relation to Kewei, we intend to increase our market share in the anti-influenza virus pharmaceutical product market in the PRC. In addition, as our market reputation increases through the sale of our oseltamivir phosphate products, we believe that this will enhance our overall brand awareness, which will have a similarly positive effect on the rest of our products.

Please see also "Business – Our Products – Anti-viral products – Kewei (Oseltamivir phosphate)".

We have a pipeline of competitive products in our key therapeutic areas (especially insulin type products) which we believe will allow us to achieve further growth to our business.

We have a pipeline of competitive products in our key therapeutic areas, including products for endocrine and metabolic diseases, products for digestive diseases and anti-viral products. As at the Latest Practicable Date, we had 18 key products in different stages of development. Such 18 key products not only cover the three key therapeutic areas described above, but also cover our current key therapeutic areas of cardiovascular diseases as well as new therapeutic areas such as diseases relating to the central nervous system.

Products for the treatment of endocrine and metabolic diseases

As at the Latest Practicable Date, we had seven key pipeline products in this therapeutic area for the treatment of diabetes, including recombinant human insulin, insulin glargine and insulin aspart. These three different forms of insulin APIs can be used for the development of fast acting, short acting, intermediate acting, long acting and pre-mixed insulin products. We believe this insulin product portfolio will allow us to provide comprehensive treatment options for patients suffering from diabetes in the PRC and allow us to obtain an advantageous position in this fast growing market and develop new profit drivers.

According to PICO, the market size of products for the treatment of diabetes in the PRC was RMB31.6 billion in 2014 and is forecasted to grow to RMB59.4 billion by 2019, with an estimated CAGR of 13.4% from 2014 to 2019. In addition, according to PICO, there is an upward trend in the number of diabetes patients in the PRC. There were approximately 98.4 million people suffering from diabetes in the PRC in 2013, and this number is expected to grow to 142.7 million by 2035. With our comprehensive product portfolio for diabetes in the future, in particular having both second and third generation insulin types, we believe we will be well positioned to take advantage of this rapidly growing market and enable our business and profitability to grow accordingly.

Products for the treatment of digestive diseases

As at the Latest Practicable Date, we had four types of proton pump inhibitor (PPI) products. We believe that these four key pipeline products for the treatment of digestive diseases will allow us to have one of the most comprehensive PPI product portfolio in the PRC.

According to PICO, the size of the PPI product market in the PRC increased from RMB10.7 billion in 2010 to RMB21.8 billion in 2014, representing a CAGR of 19.6%. PICO forecasted that the size of the PRC pharmaceutical market in relation to PPI products will increase to around RMB43.8 billion by 2019, representing a CAGR of 15.0% from 2014 to 2019. With our comprehensive product mix in PPIs in the future, we believe we will obtain an advantageous position in this large and fast growing market and enable our business and profitability to grow.

Anti-viral products

As noted above, the anti-viral therapeutic area is one of our key strengths. We have further expanded the product mix in this therapeutic area by introducing anti-Hepatitis C virus products. In this connection, we have acquired the rights to manufacture and sell worldwide yimitasvir phosphate and follow-up direct anti-viral agent compounds after development.

According to PICO, the size of the PRC market in respect of products for the treatment of the Hepatitis C virus was RMB3,542 million in 2014.

Other pipeline products

As at the Latest Practicable Date, we also have 10 other key pipeline products across several therapeutic areas, including products for our current therapeutic area of cardiovascular diseases and the new therapeutic area of diseases relating to the central nervous system.

Our strong line-up of pipeline products will allow us to expand our product range going forward and provide the stimulus for further growth in our business and profitability in the medium to long term. It will also allow us to expand our revenue sources to mitigate against any market fluctuations in a particular therapeutic area.

Please see "Business – Future Products" for further information regarding our key pipeline products.

We have unique access to new drug products pursuant to the Strategic Cooperation Agreement, which enhances our ability to expand our product portfolio and mitigate research and development risks.

We have entered into the Strategic Cooperation Agreement with Shenzhen HEC Industrial. Under the terms of the Strategic Cooperation Agreement, we have a pre-emptive right to acquire the products being developed by HEC Research Group. By reference to the number of patents filed in the PRC, HEC Research Group is one of the leading pharmaceutical research institutions in the PRC, with over 1,200 research fellows, including four experts selected to the PRC Government's "National 1,000 People Plan" (國家"千人計劃")[2] and one officer selected to the "Young Leadership Programme" (青年領軍人才). HEC Research Group also has a number of research collaboration with various research partners overseas, as well as in the PRC.

The pharmaceutical research and development segment of the HEC group was established in 2005, and was established with reference to the research standards of the FDA and in Europe in relation to new drugs. It currently has three major research divisions that focuses on innovative new drugs, biologics and generic drugs over a wide range of therapeutic areas, including infectious diseases, oncology, diseases relating to the central nervous system, metabolic diseases, diseases relating to the immune system and cardiovascular diseases, allowing it to independently conduct research and development in innovative new drugs, biological medicine and generic drugs. HEC Research Group is controlled by Shenzhen HEC Industrial and does not form part of our Group.

As mentioned above, HEC Research Group has over 1,200 research fellows, including 19 overseas experts. HEC Research Group also has 64 research fellows holding doctoral degrees and with at least 50% of the research fellows holding masters degree or above. Sunshine Lake Pharma (a member of HEC Research Group) has also been recognised by MOHRSS and National Post-Doctorate Committee (全國博士後管委會) as a Post-Doctoral Science and Research Station (博士後科研工作站). The objective of HEC Research Group is to develop into a world-class medical research institution.

The medical research academy within HEC Research Group has 12 research projects selected as "Significant New Drugs Development" (新藥創製重大專項) in the PRC Government's 11th and 12th Five-Year Plans and its medical research academy has been awarded by the Guangdong Provincial Government as an "Guangdong Introduction of Innovative Technology and Research Team" (廣東引進科研創新團隊) for four years.

As at the Latest Practicable Date, HEC Research Group is developing a range of new drugs (to which it holds the corresponding intellectual property rights) across the above six therapeutic areas with one drug in phases II clinical trials and 3 drugs in phase I clinical trials,

[2] The "Overseas Experts Introduction Plan", commonly known as the "National 1,000 People Plan" is focused on the strategic development of the PRC for the purpose of introducing overseas experts and professionals to the PRC.

and three further drugs pending applications to start clinical trials. In particular, HEC Research Group is currently developing morphothiadine (莫非賽定), a new anti-Hepatitis B drug. During its development, it received the "Significant New Drugs Development" (新藥創製重大專項) under the PRC Government's 11th Five-year Plan. Morphothiadine has been described as a "first in class" new anti-Hepatitis B drug and is anticipated to be a National Class 1.1 drug for the treatment of the Hepatitis B virus. Please see "Business – Research and Development".

HEC Research Group is also responsible for the development of yimitasvir phosphate, the first direct anti-viral agent drug being developed by a PRC company that targets the Hepatitis C virus' NS5A protein. This drug received the "Significant New Drugs Development" (新藥創製重大專項) under the PRC Government's 12th Five-year Plan. On 22 July 2015, we entered into an agreement with Sunshine Lake Pharma (a member of HEC Research Group) in respect of yimitasvir phosphate and follow-up direct anti-viral agent compounds. Please see "Business – Future Products – Future anti-viral products – Future products relating to the treatment against Hepatitis C viral infections".

HEC Research Group has research laboratories covering an aggregate gross floor area of 20,000 square metres and advanced research facilities and equipment including, among others, 11 liquid chromatography-mass spectrometry (LC-MS) systems, two magnetic resonance imaging (MRI) scanners, 278 high performance liquid chromatography (HPLC) systems and X-ray powder diffraction (XRD) systems. It also has an advanced information management system that provides its research officers access to many of the leading medical and scientific databases and journals around the world, including Elsevier, the American Chemical Society, Thomas Reuters and Derwent.

As we hold the pre-emptive right to acquire new products from HEC Research Group, we have unique access to the products developed by it. We believe that our strategic relationship with HEC Research Group will be an important driving force to increase our long-term competitiveness. Through the Strategic Cooperation Agreement, we can monitor the progress of the development of a new product without having to commit to it. Furthermore, we are in a unique position to observe the progress and results of the clinical trials of a product in development and, if we believe such developing product has potential in the PRC pharmaceutical market, we can exercise our pre-emptive right of acquisition at the appropriate time, and thereby mitigating research and development risks in relation to new drugs.

Going forward, we believe that our strategic relationship with HEC Research Group will allow us to expand our product portfolio in a cost-effective and low-risk manner. This will contribute to our sustained long-term growth, profitability and development and further our objective of identifying, developing, manufacturing and selling successful pharmaceutical products in the PRC.

Please see "Business – Research and Development – Strategic Cooperation Agreement with Shenzhen HEC Industrial".

We have an extensive sales network which provides us with deep market penetration and a wide coverage of hospitals and medical institutions.

We have an extensive sales network of distributors across the PRC. As at 30 June 2015, we had 179 sales and marketing employees, representing 20.9% of our total workforce, and established relationships with 1,594 distributors in the PRC. Our sales staff are dedicated to developing relationships with local pharmaceutical companies, major hospitals and medical institutions across all provinces and autonomous regions in the PRC, and to conducting our educational promotion activities (學術推廣) in respect of our major products.

We have a track record of successful educational promotion activities focusing on educating hospitals, doctors and other medical practitioners with respect to our products. These educational promotion activities allow us to actively interact with medical practitioner and obtain feedbacks from them on our products and our competitors' products. For example, we have produced promotional videos and other materials for our leading product, Kewei, which promoted the standardised treatment of influenza and promote the brand name and recognition of Kewei in the industry. This is exemplified by the rapid growth of our turnover relating to Kewei. We have also sponsored various academic seminars in the PRC to further promote our Company and our brand name and to promote the recognition of our products.

We conduct regular trainings for our employees that perform sales and marketing activities to ensure that they are up-to-date with our latest product portfolio. We also maintain records of our sales, marketing and promotional activities, based on which we regularly review our performance of business development.

We believe that our proactive sales and marketing model, combined with our extensive network of distributors, represents a key competitive strength of our Group. Combined with our successful track record of educational promotion activities, our dynamic marketing approach enables us to further market, sell and distribute our current and future products.

We have a stable, experienced and dedicated senior management team.

Our Board and senior management team have established an outstanding track record of operating a pharmaceutical manufacturing company, and they have extensive experience in the PRC pharmaceutical industry. Our executive Directors and our senior management possess an average of 16 years of industry-related or professional management experience. Our executive Directors and senior management have been employed by our Company and/or affiliates of Shenzhen HEC Industrial for an average of approximately 10 years.

A number of our Directors and our senior management hold professional qualifications or key positions in industry associations, such as being a licensed pharmacist, a professor and lecturer in certain universities in the PRC, a registered tax agent and an executive director of Hubei Pharmaceutical Industry Association.

We believe that we have a strong management team that is highly familiar with the strategies and culture of the Company, has an in-depth knowledge of the PRC pharmaceutical industry, and is capable of building on our competitive strengths and successfully

implementing our strategies and future plans. We believe that the stability, experience and dedication of our senior management will enable us to fulfil our long-term objective of identifying, developing, manufacturing and selling successful pharmaceutical products in the PRC.

OUR STRATEGIES AND FUTURE PLANS

We intend to focus on our current key therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases and, going forward, to expand our key therapeutic areas to include digestive diseases. Over the longer term, our objective is to become a leading pharmaceutical manufacturing company in strategically selected therapeutic areas in the PRC. In order to achieve our objectives, we intend to pursue the strategies set out below.

Further secure our position in the oseltamivir phosphate market and enhance our position in the anti-influenza virus market in the PRC and strengthen the market's perception of our strengths in the anti-viral therapeutic area.

We intend to continue to promote the development of the oseltamivir phosphate market and to build on the success of our Kewei products by increasing our focus on the standardised diagnosis and treatment of influenza in our educational promotion activities, and further increasing our market share in both the oseltamivir phosphate products market in the PRC and the anti-influenza virus products market in the PRC. As the size of these two markets continues to grow, we believe that this will provide us with a continual and stable growth to our business and profitability.

In addition, as our Kewei brand name continues to grow, we believe this will strengthen the market's perception of our strengths in the anti-viral therapeutic area in the PRC. This will set the foundation to allow us to include our future products, such as yimitasvir phosphate (our future National Class 1.1 drug used for the treatment of Hepatitis C virus), to be included in this key therapeutic area. We believe that the success of our Kewei products will also enhance the market awareness of the "HEC Pharm" and "HEC" brand name in the PRC.

Expand our product portfolio in strategically selected therapeutic areas.

As at the Latest Practicable Date, we have 18 key products in different stages of development. While these key pipeline products cover a wide range of therapeutic areas, we will continue to monitor closely the development of the pharmaceutical market in the PRC to identify and focus on those markets that we believe have the greatest potential for growth.

In order to achieve this, our senior management, with the assistance of our sales and marketing staff, will perform reviews on a regular basis on the PRC pharmaceutical product market by reference to different therapeutic areas, will seek to identify new products being developed by other pharmaceutical companies in the PRC that we may wish to acquire and, as the PRC pharmaceutical market evolves or changes, may sell the rights to any of our current or future products that we consider not to be a product that is in-demand or relevant to the therapeutic areas that we wish to focus on.

Strategy in relation to developing our pipeline products

As we have mentioned above, we have identified the markets in the PRC for anti-viral products, products for the treatment of endocrine and metabolic diseases and products for the treatment of digestive diseases to have growth potential. We have therefore strategised our product portfolio expansion plan to align our range of pipeline products to the above therapeutic areas in the PRC. We believe that we already have a strong line-up of pipeline products in each of the above three therapeutic areas.

Please see "Business – Our Competitive Strengths – We have a pipeline of competitive products in our key therapeutic areas (especially insulin type products) which we believe will allow us to achieve further growth to our business".

Strategy in relation to acquiring other new products

We intend to expand our product portfolio further in two ways: (i) through exercising our pre-emptive right of acquisition to new products developed by HEC Research Group pursuant to the Strategic Cooperation Agreement; and (ii) through strategic acquisitions and licences of development rights to new products from third parties. We intend to acquire products that would supplement our current products in our key therapeutic areas as well as other products that we believe have potential growth in the PRC.

As explained earlier, under the terms of the Strategic Cooperation Agreement with Shenzhen HEC Industrial, we have a pre-emptive right to acquire new products being developed by HEC Research Group and its subsidiaries. The Strategic Cooperation Agreement provides us with a unique access to one of the leading pharmaceutical research institutions in the PRC[3] and allows us to identify those products under development that we believe to have relatively strong potential in the future PRC pharmaceutical market. In this connection, this strategy means that we only incur costs in relation to those products that we acquire pursuant to the Strategic Cooperation Agreement, and thereby we do not need to bear large amounts of research and development costs or bear the uncertainty of development projects.

Separate from the Strategic Cooperation Agreement, we also intend to expand our product portfolio via inorganic growth. We intend to achieve this in two ways. First, we will explore strategic acquisition opportunities in the PRC pharmaceutical market by acquiring rights to products being developed by other pharmaceutical companies in the PRC. Second, we will also explore opportunities to license from overseas pharmaceutical companies the right to manufacture and sell pharmaceutical products in the PRC.

[3] By reference to the number of patents filed in the PRC compared against other pharmaceutical research institutions in the PRC.

We intend to monitor the PRC pharmaceutical product market by reference to different therapeutic areas in order to identify product types that we believe have relatively strong growth potential. We will also closely monitor products in development by other pharmaceutical companies in the PRC that show signs of potential or innovation in the relevant product types. For strategic acquisitions, we are particularly keen to expand our portfolio to include innovative drugs, including those drugs that are classified as National Class 1.1 drugs. In relation to licensing from overseas companies, we intend to leverage our experience from licensing the current oseltamivir phosphate licence from Oseltamivir Phosphate Licensor to seek opportunities to obtain licences from other overseas pharmaceutical companies that have a successful track record in order to produce and sell drugs in the PRC.

We will only acquire a new product or license the rights to a product after a careful risk-benefit analysis and a detailed market-analysis of that product going forward (including the consideration payable for the relevant acquisition or the licence fee payable for the relevant licence). In addition, any decision to acquire or license the rights to a product will only go ahead if that product is aligned with our objective of identifying, developing, manufacturing and selling successful pharmaceutical products in the PRC. We believe that this dual approach in expanding our product portfolio will further enhance our profitability by enabling us to drive additional revenues through our existing extensive distributor network.

Improve and internationalise our production standards as our product portfolio expands.

We have GMP certifications in relation to all of our production processes of our current products. We have also received certifications from certain overseas regulatory authorities. For example, we have received Certificates of Suitability from the European Directorate for the Quality of Medicine & Healthcare for the production of some of our products. Going forward, we intend to (i) improve our production processes by reference to the process requirements and standards of relevant overseas authorities in the United States and Europe and continue to improve our product quality and knowhow; and (ii) improve the quality of our products by reference to the quality assurance standards of similar types of products in developed countries and exceeding the quality standards required in the PRC. This is part of our strategy of "internationalising" our production processes. We believe that improving our production standards is a continuing process, as it will not only improve our reputation in the PRC pharmaceutical market, but also ensure that the quality of our pharmaceutical products are higher than our competitors. We also believe that having production standards that exceeds national requirements and reaching international standards will allow us to have an advantageous position in centralised tender processes.

In addition, when seeking licences from overseas companies to develop products in the PRC, having "internationalised" production standard may be one of our competitive strengths, allowing us to secure such licences. Although we currently do not have an intention to develop our overseas business, we believe that "internationalising" our production standards is nevertheless an important aspect of our growth strategy within the PRC.

We are planning to construct two additional production facilities in Yidu. As part of our strategy of "internationalising" our production processes and standards, we intend to design our production processes in these new production facilities with reference to the GMP requirements in the PRC, as well as the United States and Europe.

Please see "Business – Future Expansion and Upgrade Plan".

Continue to expand our coverage of hospitals and other medical institutions and deepen our market penetration through effective sales and marketing efforts and enhancing our sales and marketing team.

We aim to increase the exposure of our products by expanding our coverage of hospitals and other medical institutions and deepening our market penetration in the PRC pharmaceutical market. We intend to achieve this through effective sales and marketing efforts, including, on the one hand, by increasing the number of our sales and marketing staff, and on the other hand, by improving the effectiveness of our existing sales and marketing staff. We intend to improve the effectiveness of our sales and marketing staff by establishing specialist sales teams for our key products, hiring experienced sales and marketing personnel in the PRC pharmaceutical industry and implementing attractive compensation structures to ensure that our sales and marketing staff are properly incentivised to promote our products to our customers.

In addition, deepening our market penetration in the PRC pharmaceutical market paves the way to allow our future products to be used by a greater number of hospitals and medical institutions. In particular, we intend to develop the coverage of our products at hospitals and other medical institutions at both the provincial level and the city level. For example, we will identify those regions where the relevant provincial or city government have implemented policies that are favourable to us and/or our products and will increase our sales and marketing activities in those regions. Overall, we intend to increase our marketing and promotional activities in hospitals and other medical institutions to increase the exposure of our products to doctors and other medical practitioners.

Furthermore, we believe that consumption of pharmaceutical products in rural areas is experiencing significant growth in the PRC. We intend to benefit from this growing market by increasing our sales and marketing activities in rural areas, especially in local hospitals in rural areas, in order to deepen our market penetration in such growth areas.

In order to successfully commercialise future products, we intend to increase the size of our sales and marketing teams to ensure that we have adequate sales and marketing staff for our expanded product portfolio. This may include developing specialist sales and marketing teams for certain key products, such as Kewei and our future major products in our key therapeutic areas, to improve the efficiency of their sales and marketing activities and optimise the commercial value of our products. We will continue to implement new systems and measures to review and analyse our sales data to ensure that we allocate adequate sales and marketing resources at the appropriate areas and for the appropriate products and thereby optimising our sales volumes while managing our sales and marketing expenses. We believe that our internal sales and marketing staff provides the foundation for greater sales and growth in the future.

We have recently implemented a strategy of reducing the total number of our third-party distributors with the objective of directly selling our products to those distributors that are leaders in their respective areas within the PRC. Please see "Business – Sales, Marketing and Distribution – Our distributor network".

Continue to improve our profitability by enhancing our efficiency and enhancing our management and business procedures.

We aim to continue to develop our business by increasing and consolidating our profitability. For the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our profit attributable to equity shareholders of the Company was RMB23.0 million, RMB57.8 million, RMB135.3 million and RMB153.2 million, with net profit margins (net profit over total revenue) of 7.4%, 15.1%, 27.3% and 39.5%, respectively. We intend to continue to improve our profitability by improving our net profit margins in the future.

We intend to implement a number of initiatives to enhance our efficiency, which in turn should improve our profitability. For example, we intend to increase the extent of automation in our production facilities in order to reduce our production costs, decrease production time for our products and minimise the risk of human errors during the manufacturing process. We also intend to increase the capacity of our production facilities at appropriate intervals to take advantage our economies of scale and thereby reducing the unit costs of our products. We also intend to review the remuneration levels of our production staff to ensure that we maintain a correct balance between properly motivating our employees while managing overall staff costs. Another initiative that we intend to pursue is to conduct research and development in relation to the production and manufacturing processes of our existing products with a view of modifying such processes to reduce unit costs, decrease production time and to improve the inter-changeability of production lines for different types of our products.

OUR PRODUCTS

As at the Latest Practicable Date, we manufacture, market and sell a total of 33 pharmaceutical products in the PRC, most of which are prescription drugs. We also manufacture 11 types of APIs, most of which are manufactured for self-use. Taking into account our anticipated products in the future, we generally categorise our products into the following key therapeutic areas: anti-viral products, products for the treatment of endocrine and metabolic diseases, products for the treatment of cardiovascular diseases and other products. Going forward, we also intend to expand into the digestive diseases therapeutic area. We generated a small amount of overseas sales during the Track Record Period and these related to the sale of APIs to pharmaceutical companies outside the PRC.

The following table sets out a breakdown of our turnover during the Track Record Period by therapeutic areas (as described above).

Therapeutic Area	Year Ended 31 December						Six Months Ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(unaudited)			
Anti-viral products	13,488	5.0%	75,417	23.8%	199,414	45.2%	128,161	52.9%	272,461	71.2%
Products for endocrine and metabolic diseases	19,361	7.2%	25,522	8.1%	32,514	7.4%	13,452	5.6%	15,919	4.2%
Products for cardiovascular diseases	97,024	36.0%	98,311	31.1%	106,209	24.1%	49,747	20.5%	50,310	13.1%
Other products	139,334	51.8%	117,179	37.0%	102,767	23.3%	50,947	21.0%	44,174	11.5%
Total	269,207	100.0%	316,429	100.0%	440,904	100.0%	242,307	100.0%	382,864	100.0%

Currently, our top five products by turnover are: Kewei, Oumeining, Xinhaining, Ertongshu and Xining, which together accounted for 47.9%, 61.7%, 76.6% and 88.4% of our turnover in 2012, 2013 and 2014 and for the six months ended 30 June 2015, respectively.

The table below sets out a breakdown of our top five products by turnover and as a percentage of our turnover during the Track Record Period.

Product	Year Ended 31 December						Six Months Ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Kewei	9,198	3.4%	70,116	22.2%	194,473	44.1%	126,017	52.0%	270,889	70.7%
Oumeining	35,164	13.1%	38,831	12.3%	42,604	9.7%	20,875	8.6%	22,027	5.8%
Xinhaining	34,209	12.7%	30,614	9.7%	35,020	7.9%	15,693	6.5%	16,096	4.2%
Ertongshu	17,297	6.4%	23,338	7.4%	30,025	6.8%	12,416	5.1%	14,774	3.9%
Xining	33,206	12.3%	32,003	10.1%	35,543	8.1%	15,328	6.3%	14,664	3.8%
Sub-total for our top five products	129,074	47.9%	194,902	61.7%	337,665	76.6%	190,329	78.5%	338,450	88.4%
Other turnover	140,133	52.1%	121,527	38.3%	103,239	23.4%	51,978	21.5%	44,414	11.6%
Total	269,207	100.0%	316,429	100.0%	440,904	100.0%	242,307	100%	382,864	100%

The table below sets out the average unit (per packet) selling price of our top five products during the Track Record Period (excluding tax).

Product	Year Ended 31 December 2012	2013	2014	Six Months Ended 30 June 2015
	RMB	*RMB*	*RMB*	*RMB*
Kewei (Oseltamivir phosphate granules)	38.6	39.9	41.4	41.1
Kewei (Oseltamivir phosphate capsules)	114.2	86.5[(1)]	118.2	106.8
Oumeining	10.6	11.3	11.6	11.4
Xinhaining	7.8	6.6	6.8	5.9
Ertongshu	15.2	15.7	15.6	14.8
Xining	8.8	9.1	9.3	8.9

Note:

(1) The lower average unit selling price for Kewei capsules in 2013 was due to a large order by an independent customer in that year at a lower negotiated price, for the purposes of achieving an enlarged scale of sales and for market expansion.

The table below sets out the sales volume of our top five products during the Track Record Period.

Product	Year Ended 31 December 2012	2013	2014	Six Months Ended 30 June 2015
	Packet	*Packet*	*Packet*	*Packet*
Kewei (Oseltamivir phosphate granules)	180,857	832,640	2,892,944	4,300,792
Kewei (Oseltamivir phosphate capsules)	19,441	426,649	631,495	883,111
Oumeining	3,332,085	3,446,659	3,666,904	1,929,905
Xinhaining	4,394,930	4,613,403	5,153,288	2,737,845
Ertongshu	1,138,447	1,485,556	1,929,063	999,060
Xining	3,756,795	3,522,875	3,819,704	1,652,793

The table below sets out selected information in relation to our top five products.

Product name and type	Manufacturing permit number	Form of product	Therapeutic Area	Expected Shelf Life
Kewei (oseltamivir phosphate)	H20065415	75mg capsule	Anti-virus	48 months
	H20080763	15mg granules	Anti-virus	24 months
	H20093721	25mg granules	Anti-virus	24 months
Oumeining (telmisartan)	H20040805	40mg tablet	Cardiovascular diseases	36 months
	H20050934	80mg tablet	Cardiovascular diseases	36 months
Xinhaining (amlodipine besylate)	H20066843	5mg tablet	Cardiovascular diseases	24 months
Ertongshu (benzbromarone)	H20040348	50mg tablet	Endocrine and metabolic diseases	24 months
Xining (cetirizine hydrochloride)	H20040308	10mg dispensing tablet	Other – Allergy	24 months

A full list of our current products that we manufacture and sell in the PRC is set out on page 161.

Anti-viral products

Anti-viral products are products used for the treatment and prevention of virus infections, such as influenza. As at the Latest Practicable Date, we manufacture and sell seven anti-viral products in the PRC, with the most significant product being Kewei (oseltamivir phosphate). For the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our revenue from sales of anti-viral products was RMB13.5 million, RMB75.4 million, RMB199.4 million and RMB272.5 million, respectively. This represents a CAGR of 284.3% from 2012 to 2014.

Kewei (Oseltamivir phosphate)

Kewei (oseltamivir phosphate) is our key anti-viral product and the top selling product of the Group. It is sold in 75mg capsule form, 15mg granules form and 25mg granules form. The granules form of Kewei was introduced by the Group with a view to target the paediatrics market in the PRC and we are the only manufacturer of the patent-protected granule form oseltamivir phosphate in the PRC, which has allowed us to secure a strong position in the anti-influenza virus product market in the PRC. We believe that, while adults may have developed certain resistance to certain types of the influenza virus, children affected by influenza viral infections may develop serious illnesses. In addition, infants are more susceptible to influenza, with the prevalence rate of influenza for infants is 1.5 to 3 times of the prevalence rates for adults, and therefore our granules form of Kewei was introduced for this reason. In 2014 alone, the granules form of Kewei generated turnover of approximately RMB119.8 million and accounted for 27.2% of our turnover in 2014. In the PRC, we market our oseltamivir phosphate products under the name "Kewei" (可威).

Oseltamivir phosphate is an anti-viral drug used widely for the treatment of influenza, including avian influenza. Oseltamivir phosphate is an orally administrated medicine which undergoes hydrolysis to form active oseltamivir carboxylate. Oseltamivir carboxylate acts by selective inhibition of influenza A and B viral neuraminidase. A lipophilic side chain of the active drug binds to the virus enzyme, blocking its ability to cleave sialic acid residues on the surface of the infected cell and resulting in an inability for the virus to leave its host cell and release further viral particles.

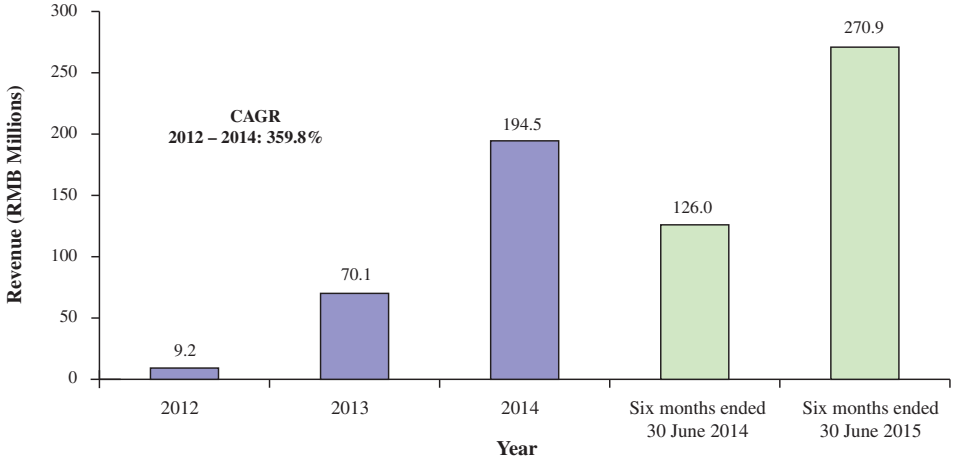
The effectiveness of oseltamivir phosphate in the combat against different strains of influenza has been recognised around the world. For example, oseltamivir phosphate is listed as an "essential medicine" in the WHO Model List of Essential Medicines. It is also recommended by the CDC in the United States as one of the key anti-viral medicines for the treatment of influenza. Oseltamivir phosphate is also recommended by the ECDC in Europe for the treatment of influenza. In the PRC, according to the 2015 Expert Consensus on Seasonal Influenza in Children: Diagnosis and Treatment (兒童流感診斷與治療專家共識(2015年版)), oseltamivir phosphate was recommended for the treatment and prevention of influenza in children.

In the PRC, oseltamivir phosphate is recommended by NHFPC as the first choice medicine to treat H1N1 influenza, as well as H7N9 influenza. As a designated supplier of oseltamivir phosphate to the Central Medical Reserve (中央醫藥儲備基地), we have successfully supplied to the PRC Government and the military and have been recognised by them accordingly. In 2004, we participated in the oseltamivir phosphate research program conducted by the Poisons and Drugs Research Office of the Medical Science Academy of the PRC People's Liberation Army (中國人民解放軍軍事醫學科學院毒物藥物研究所) ("**Poisons and Drugs Research Office**"), and were jointly responsible for conducting laboratory research, small scale production, medium scale production and commercial production in connection thereof. When the H1N1 influenza A outbreak occurred and spread globally in April 2009, as the designated supplier of oseltamivir phosphate to the military, we actively cooperated with the Government's relevant taskforce and successfully supplied oseltamivir phosphate products to them. In this connection, we efficiently and timely completed the supply of oseltamivir phosphate products to the government, and have received a recognition letter from the NDRC for this.

According to PICO, our Kewei product accounted for 0.5%, 3.8% and 8.2% of the anti-influenza virus product market in the PRC in 2012, 2013 and 2014, respectively and we were ranked as the leading seller of oseltamivir phosphate products in the PRC by revenue in each of 2013 and 2014. In 2014 alone, we accounted for approximately 84% of the oseltamivir phosphate product market in the PRC. In terms of the wider anti-influenza virus product market in the PRC, according to PICO, we were ranked fourth by market share in 2014.

We sell Kewei throughout the PRC. During the Track Record Period, our turnover generated from the sale of Kewei products was RMB9.2 million, RMB70.1 million, RMB194.5 million and RMB270.9 million for the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, representing 3.4%, 22.2%, 44.1% and 70.7% of our turnover in their respective periods and a CAGR of 359.8% from 2012 to 2014. We do not sell Kewei products to customers outside the PRC.

Turnover Generated from the Sale of Kewei (2012 – 1H 2015)



Our relationship with Oseltamivir Phosphate Licensor

We have the right to use certain patents in relation to oseltamivir phosphate in the PRC. Such right is licensed to Shenzhen HEC Industrial with the benefits being extended to us by Shenzhen HEC Industrial. In 2006, Shenzhen HEC Industrial, one of our Controlling Shareholders, entered into a non-exclusive licensing agreement with Oseltamivir Phosphate Licensor (an Independent Third Party) which authorised Shenzhen HEC Industrial to produce, manufacture and sell oseltamivir phosphate products in the PRC. Shenzhen HEC Industrial is also entitled to extend the benefit of the licence agreement to our Company. Such licence has been renewed a number of times for the period up to the new agreement referred to below. Historically, each renewal was for a period of around two years.

In August 2015, Shenzhen HEC Industrial entered into a new licence agreement with Oseltamivir Phosphate Licensor in respect of the use of the relevant oseltamivir phosphate patents (the "**Current Agreement**") until 26 February 2016 with an option exercisable by Shenzhen HEC Industrial to extend the term up to 31 December 2017. Taking into account that the term of the Current Agreement can be extended unilaterally by Shenzhen HEC Industrial to 31 December 2017, the term of the Current Agreement is in line with the renewal periods of previous licence agreements of around two years. Similar to the previous licence agreements, the benefits of the Current Agreement are extended to our Company and the licence scope is the same as our previous licences from Oseltamivir Phosphate Licensor (as set out below). Royalty fees based on sales amount are payable under the Current Agreement, and we directly pay such royalty fees to Oseltamivir Phosphate Licensor. The key patents relating to the oseltamivir phosphate compound will expire in February 2016 and August 2017. A summary of the nature of the eight patents that are subject to the Current Agreement is set out in "Appendix VI – Statutory and General Information" on page VI-13.

As the contracting party to the previous licence agreements and the Current Agreement is Shenzhen HEC Industrial, that is the only entity that can terminate or renew the Current Agreement and be held liable in relation to any breach of those agreements, and the Company would be excluded from any such contractual liability. In this connection, Shenzhen HEC

Industrial has undertaken to us: (a) not to terminate the Current Agreement without our consent; (b) to exercise the option to extend the term of the Current Agreement up to 31 December 2017 upon our request; and (c) if requested by us, to use its best endeavours to renew the Current Agreement after its expiry. Shenzhen HEC Industrial has also undertaken to indemnify us in relation to any loss or damage that we may incur, and has agreed that it will not make any claim against us, in connection with the previous licence agreements with Oseltamivir Phosphate Licensor or the Current Agreement in relation to the above.

Shenzhen HEC Industrial entered into the Current Agreement as historically, Shenzhen HEC Industrial had always been the contracting party to the relevant licence agreements with Oseltamivir Phosphate Licensor since 2006 (and for each subsequent renewal) and had therefore followed this settled practice when executing the Current Agreement. The reason why Shenzhen HEC Industrial entered into the original licence agreement in 2006 was because we believe that it is common practice in the PRC for a parent company to discuss and enter into cooperation agreements of this nature with third parties, but will procure its subsidiaries to perform the obligations under such agreements. The original licence agreement in 2006 was similar to the Current Agreement in which the benefits were extended to the Company. The terms of the Current Agreement are substantially the same as the original licence agreement in 2006. Therefore, following this common practice, Shenzhen HEC Industrial entered into the original licence agreement with Oseltamivir Phosphate Licensor in 2006. PICO is also of the view that it is common practice in the PRC for a parent company to discuss and enter into cooperation agreements of this nature with third parties and delegate the relevant obligations to its subsidiaries to perform.

We do not consider the fact that Shenzhen HEC Industrial is the contracting party to the Current Agreement to have any material adverse effect on our Kewei business as Shenzhen HEC Industrial does not conduct any business relating to oseltamivir phosphate products. In addition, the relevant production staff relating to Kewei are our employees, the relevant production permit for oseltamivir phosphate is in our name, and Shenzhen HEC Industrial does not have a production permit for oseltamivir phosphate. Separately, the Oseltamivir Phosphate Licensor has confirmed to us in writing that, if necessary, it will enter into the licence agreement with us directly upon the expiry of the Current Agreement on 31 December 2017 on similar terms.

In addition, under the terms of the Non-Competition Agreement, Shenzhen HEC Industrial has agreed, and will procure its subsidiaries not to compete with us in our business.

Under the terms of the previous licences and the current licence from Oseltamivir Phosphate Licensor, Oseltamivir Phosphate Licensor has authorised the Company to use the relevant patents to manufacture and sell oseltamivir phosphate API (including API in the form of granules) and certain oseltamivir phosphate products in the form of capsules in the PRC to institutions controlled by the PRC government in the PRC for use in the PRC by those institutions and for the use of pandemic prevention and control.

Pursuant to PRC regulations, the Kewei products manufactured by us pursuant to the above agreements must be sold to GSP certified distributors (rather than directly to hospitals), some of which were not government controlled. The Company began supplying oseltamivir

phosphate products to the PRC government in 2006 through government-owned distributors. During this time we had notified the relevant distributors that our oseltamivir phosphate products should only be sold to government owned entities but did not include such requirement in our terms of sales. As the demand from government hospitals increased to control the spread of influenza in the PRC, we made our Kewei products available to a greater number of government hospitals, some of which used distributors that were privately owned. In addition, as the entities to which the relevant distributors deliver or on-sell our Kewei products are technically outside the scope of our control, we have again notified the relevant distributors and have, since August 2015, included in our terms of sales to distributors the requirement that the distributors may not deliver our Kewei products to non-government controlled entities. We have consulted Oseltamivir Phosphate Licensor in relation to the requirements of the relevant PRC regulations and our updated sales policy, and it has confirmed that it has no objection to our updated sales policy. With respect to the sales by our distributors, Oseltamivir Phosphate Licensor has acknowledged that going forward, we will use reasonable endeavours to monitor the on-sale of our oseltamivir phosphate products by our distributors. Such reasonable endeavours would involve updating our terms of sales for Kewei to include the requirement that our distributors may not deliver our Kewei products to non-government controlled entities and notifying our distributors of this requirement. Oseltamivir Phosphate Licensor has also confirmed in writing that it has waived its claims against us under the relevant licence agreements in relation to our historical sales that were not consistent with the relevant license agreements.

There are no penalty clauses for sales of oseltamivir phosphate to non-government controlled entities under the Current Agreement or in the Company's updated terms of sales with its distributors. Although there are no penalty clauses for sales of oseltamivir phosphate to non-government controlled entities under the Company's updated terms of sales with its distributors, we have, in line with the updated sales policy as agreed with Oseltamivir Phosphate Licensor, notified our distributors that we will stop supplying our Kewei products to them if we become aware that they do not comply with our terms of sales.

Going forward, in order to ensure that we comply with the requirements of the Current Agreement, we will continue to include in our terms of sales for Kewei that our Kewei products may not be delivered to non-government controlled entities and will notify any new distributor of this requirement. As an additional internal control measure voluntarily adopted by us, we will also obtain written confirmations from our distributors to confirm that they have complied with this requirement, and we have obtained such confirmations since August 2015. This exercise will be done quarterly on a sampling basis (by reference to 5% or more of Kewei distributors in that quarter). If a distributor does not confirm its compliance, we will investigate the matter further. If we become aware that any distributor does not comply with our terms of sales, we will stop selling our Kewei products to and terminate our relationship with that distributor. Going forward, our internal audit team will also review our compliance procedures and processes relating to Kewei and report to the Directors if any non-compliance issues are discovered. Separately, in relation to our existing distributors and any new distributor for Kewei, since August 2015, we require such distributors to provide us with evidence demonstrating that they are entities controlled by the PRC government (such as, shareholders'

register, public shareholding information published on the company information system of the PRC government, or, where applicable, confirmation from local government authorities) before we sell any further Kewei products to them. Since August 2015, we have not sold our Kewei products to distributors that we are not able to confirm are controlled by PRC government. We have not terminated our relationship with all of our non-government distributors, as we sell our other products (that is, products other than Kewei) to such distributors. We believe the additional measures described above are reasonable and sufficient for the purpose of monitoring our Kewei distributors.

Since August 2015, we have stopped supplying our Kewei products to 32 distributors that we were not able to confirm to be government controlled. During the Track Record Period, the total amount of our turnover generated from the sale of Kewei to these 32 distributors was approximately RMB1,025,000. The unaudited turnover generated from Kewei during the three-month period between August and October 2015 was approximately RMB47.3 million. In comparison, the unaudited turnover generated from Kewei during the three-month period between August and October 2014 was approximately RMB21.3 million. This represented a 122.1% increase in turnover generated from Kewei during the three-month period between August and October 2015 compared to the three-month period between August and October 2014. In comparison, the turnover generated from Kewei for the six months ended 30 June 2015 compared to the six months ended 30 June 2014 increased by approximately 115.0%. Therefore, the rate of increase of our turnover from Kewei since August 2015 compared to the corresponding period in 2014 has maintained a relatively similar rate of increase when compared with the rate of increase during the first six months of 2015 against the corresponding period in 2014. The average unaudited monthly turnover from Kewei during the three-month period between August and October 2015 of RMB15.8 million compared to the average unaudited monthly turnover from Kewei during the first six months of 2015 of RMB45.1 million was due to the fact that outbreaks of influenza tends to be of a seasonal nature and is more prevalent in the winter and spring months. This means that the turnover from Kewei generally tends to be higher during the winter and spring months in the PRC. This is consistent with the position in 2014 where the average unaudited monthly turnover from Kewei during the three-month period between August and October 2014 was RMB7.1 million compared with the average unaudited monthly turnover from Kewei during the first six months of 2014 of RMB21 million. In each of 2015 and 2014, the average monthly turnover from Kewei during the three-month period between August and October was approximately one-third of the monthly turnover from Kewei during the first six months of that year. Therefore, we do not consider the implementation of the above measures for complying with the Current Agreement to have a material adverse impact on the sale of our Kewei products.

The Directors are of the view that the above measures are sufficient to ensure on-going compliance with the Current Agreement. In addition, as mentioned above, the Company has consulted Oseltamivir Phosphate Licensor in relation to the Company's updated sales policy, including the fact that the Company cannot physically control its distributors, and Oseltamivir Phosphate Licensor has confirmed in writing that it has no objections to the Company's updated sales policy. Based on the due diligence work done by the Sole Sponsor and its discussions with the Company, in particular, taking into account the understanding between the Oseltamivir Phosphate Licensor and the Company, the Sole Sponsor is of the view that the above measures adopted by the Company are sufficient to ensure on-going compliance with the Current Agreement.

Neither the Company nor Shenzhen HEC Industrial has any disputes with Oseltamivir Phosphate Licensor in relation to the Current Agreement or the previous licence agreements regarding the oseltamivir phosphate patents.

Please see "Risk Factors – If the current licence agreement with Oseltamivir Phosphate Licensor relating to certain oseltamivir phosphate patents is not renewed or terminated, this may materially and adversely affect our business,operations and financial position."

As the patents relating to oseltamivir phosphate begin to expire from February 2016, other pharmaceutical companies may be able to manufacture and sell oseltamivir phosphate API and finished products, subject to such other pharmaceutical companies obtaining all necessary regulatory approvals and permits in the PRC. In our view, the time period for another pharmaceutical company to obtain the necessary government approvals and permits for the commercial production of oseltamivir phosphate may take at least three to five years (including passing all necessary clinical trials). Therefore, we do not consider the expiry of such patents to have a material impact on our business in the short to medium term. In addition, even after February 2016, we believe that it would be difficult for another pharmaceutical company to begin manufacturing oseltamivir phosphate products in the PRC without infringing the other unexpired oseltamivir phosphate patents. This is because the production of oseltamivir phosphate is a complicated process, and any new manufacturing methods for producing oseltamivir phosphate API without using the methodologies that are covered by the relevant patents under the Current Agreement would require significant research and development. Although to the best of our knowledge, as at the Latest Practicable Date, we are not aware of any other PRC company developing new methodologies for the production of oseltamivir phosphate, we have not ruled out the possibility of another PRC company developing such new methodologies in the future. In the event that another PRC company successfully develops new methodologies to produce oseltamivir phosphate, as explained below, we believe it may take three to five years for such PRC company to obtain all necessary approvals for commercial production of oseltamivir phosphate.

As advised by PICO, in relation to applications relating to generic pharmaceutical products, the time period from the date of submission of application for commencing clinical trials to obtaining the necessary approvals will take approximately three years (taking into account the current backlog of applications and the new measures introduced by the CFDA). In addition, PICO is of the view that even when the necessary approvals have been obtained, a pharmaceutical manufacturing company generally requires a period of time before it is able to demonstrate the effectiveness of its generic drugs to doctors and hospitals.

In the Company's previous experience relating to applications for generic pharmaceutical products, the application process may generally take five years to complete (without taking into account the period of time for the demonstration of the effectiveness of the generic pharmaceutical products). For example, the Company's application for lansoprazoli tablets, a generic drug for digestive diseases, was submitted in 2004 and the necessary approvals were obtained in 2009. Therefore, taking into account the Company's previous experience in drug applications for generic pharmaceutical products and balancing this against the less stringent

requirements for generic drug applications and the new measures introduced by the CFDA to increase the efficiency of drug applications (which is intended to speed up the drug application process, but at the same time noting that there is a significant backlog of drug applications submitted to the CFDA), the Directors are of the view that a time period of three to five years would be needed for other pharmaceutical manufacturers to obtain the necessary manufacturing approvals and permits.

PICO is of the view that the expiry of the key patents relating to oseltamivir phosphate from February 2016 is not expected to have a material impact on the Company's business in the short to medium term. Based on the due diligence work done by the Sole Sponsor (including the new Notice No. 140 issued by the CFDA) and its discussions with the Company and PICO, the Sole Sponsor is of the view that the expiry of the key patents relating to oseltamivir phosphate from February 2016 is not expected to have a material impact on the Company's business in the short to medium term.

We believe that the above factors are barriers to entry for other pharmaceutical companies who wish to enter the oseltamivir phosphate product market in the PRC.

We will continue to monitor the anti-viral and anti-influenza virus product market in the PRC to ascertain whether any other pharmaceutical company intends to take advantage of the expiry of Oseltamivir Phosphate Licensor's patent in relation to oseltamivir phosphate. Please see also "Risk Factors – Our ability to manufacture and sell our leading product, Kewei, depends on a number of patents that are licensed from Oseltamivir Phosphate Licensor. The patents in relation to oseltamivir phosphate will begin to expire in February 2016."

Designated supplier of oseltamivir phosphate to the PRC government

As mentioned above, we have been designated by the PRC government as a supplier of oseltamivir phosphate to the Central Medical Reserve. We understand that only one other pharmaceutical company based in Shanghai has also been designated to supply oseltamivir phosphate to the PRC government. Our designation as a supplier of oseltamivir phosphate to the PRC government did not include specific conditions on the price or the volume of oseltamivir phosphate to be supplied or the amount of raw materials to be reserved. However, there is an informal understanding in the PRC government that if the PRC government requests for specific orders of oseltamivir phosphate API, then the Company must use its reasonable efforts to fulfil such requests. Such cooperation with the PRC government's requests is on a reasonable basis. Accordingly, we are not required to suspend the production of our other products, and no penalty will be imposed on us if we cannot fulfil such request.

In 2009, we received various urgent orders from the PRC government for oseltamivir phosphate API in order to combat the outbreak of influenza at the time. We responded to the PRC government's request and successfully supplied oseltamivir phosphate API of about 15.2 tonnes (equivalent to approximately 20.3 million packages of oseltamivir phosphate capsules) to the relevant government entities over a period of around seven months. The average unit price of our oseltamivir phosphate products sold to the PRC government in 2009 was

comparable to the average unit selling price of our oseltamivir phosphate capsules in 2013. To achieve this request, we arranged for additional overtime shifts for our production and quality assurance staff and assigned production staff responsible for other API products to assist in the production of oseltamivir phosphate API during their overtime shifts. We also recruited additional staff at the time for production purposes. To increase our production capacity for oseltamivir phosphate in the interim period before the completion of Workshops 225/227 at Yidu Base Area No. 2, we also utilised a production line from Parent Company and modified it for the purposes of producing oseltamivir phosphate because our other production lines at the time could not easily be modified to produce oseltamivir phosphate API. We stopped using the production line from Parent Company after Workshops 225/227 were completed, at which time Workshops 225/227 became our primary production facilities for oseltamivir phosphate API. In 2009, we did not suspend the production of our other products when fulfilling the PRC government's orders for oseltamivir phosphate. The PRC government's orders of oseltamivir phosphate did not have a material adverse effect on the production levels of our other products in 2009.

In connection with the above, we received a recognition letter from the PRC government for successfully fulfilling the PRC government's urgent orders for oseltamivir phosphate, which further strengthened our position as a government designated supplier of this product. We believe that our experience in 2009 has demonstrated our ability to respond to the PRC government's urgent orders for oseltamivir phosphate. In particular, we were able to manage our internal production, quality assurance and management resources in order to meet the PRC government's demands in 2009. All three of our current deputy general managers were with the Company during 2009 when we successfully fulfilled the PRC government's orders for oseltamivir phosphate. We could leverage on our successful experience when responding to similar demands from the PRC government. In addition, the number of our production staff has increased and we have gradually improved our management efficiency since 2009. Therefore, we believe we have the ability and experience to meet similar requests from the PRC government (if any) in the future.

We have not entered into any long-term agreement with the PRC government in relation to our role as a designated supplier of oseltamivir phosphate. Therefore, if any urgent orders of oseltamivir phosphate would require us to suspend production of our other products, we will not be compensated by the PRC government in relation to such suspension.

Our API production facilities at Yidu Base Area No. 2 is our main API production plant for oseltamivir phosphate. Workshop 226 and Workshops 225/227 at Yidu Base Area No. 2 were constructed in 2005 and 2009, respectively. Taking into account our role as a designated supplier of oseltamivir phosphate to the PRC government and the growth potential of our oseltamivir phosphate product as public recognition of our product begins to grow, Workshops 225/227 were built to ensure that we have adequate capacity to meet future requests from the PRC government and public hospitals. Considering the current capacity of our production facilities, we maintain sufficient excess capacity in such facilities in case we receive urgent requests from the PRC government for oseltamivir phosphate API. Please see "Manufacturing – Manufacturing Facilities – Yidu Base Area No. 2".

The depreciation charge and maintenance expenses of the production lines for oseltamivir phosphate at Yidu Base Area No. 2 during each of 2012, 2013, 2014 and for the six months ended 30 June 2015 were approximately RMB4,475,000, RMB4,586,000, RMB4,690,000, and RMB2,228,000, respectively.

Based on our experience in 2009, we maintain what we believe to be a reasonable level of raw materials for the production of oseltamivir phosphate (taking into account the possibility of receiving urgent orders from the PRC government). We have an internal policy of holding raw materials in our inventory that are sufficient to produce at least 4 million packages of oseltamivir phosphate products. In addition, in respect of our other pharmaceutical products, we generally keep one month's supply of such finished products in inventory. This would allow us, if necessary, to suspend production of our other products for up to one month in order to increase our production levels for oseltamivir phosphate products, while minimising adverse effects on the supply of our other products. We believe that if we were to receive orders from the PRC government for oseltamivir phosphate of a volume similar to 2009, based on our experience in 2009 and our current production capacity, such orders are unlikely to have a material adverse impact on our business. On the contrary, we believe that a similar order of oseltamivir phosphate from the PRC government would be beneficial to us, as it would increase our turnover from oseltamivir phosphate without materially and adversely affecting the current sale and production of kewei and our other products. This is because the combined production capacity for oseltamivir phosphate API at Yidu Base Area No.2 is able to meet the current demand for our oseltamivir phosphate products, as well as any potential request from the PRC government of a volume that is similar to its order of oseltamivir phosphate in 2009.

As noted in "Financial Information – Net Current Assets – Inventory", our raw materials in inventory have decreased since 2013, mainly as a result of government policies affirming the regular usage of oseltamivir phosphate. The decrease in raw materials since 2013 is due to the fact that our raw materials for oseltamivir phosphate at the time already exceeded our internal requirement of holding raw materials of an amount sufficient to produce 4 million packages of oseltamivir phosphate products. Therefore, such excess raw materials were used for the production of oseltamivir phosphate during subsequent periods.

Other information relating to Kewei

Our patent relating to the granules form of Kewei was originally developed by the Poisons and Drugs Research Office. In 2006, the rights to such patents were exclusively transferred to us for a period up to June 2015. In May 2015, we entered into a further transfer agreement with the Poisons and Drugs Research Office for the transfer of the related patents to us until the expiry of the patent in April 2026.

Key competitors in the sale of oseltamivir phosphate in the PRC are a company that we understand is part of a group of companies operated by Oseltamivir Phosphate Licensor and another pharmaceutical company based in Shanghai which has been licensed by Oseltamivir Phosphate Licensor to produce and sell oseltamivir phosphate products in the PRC. Please see "Industry Overview – Infectious Diseases in the PRC – Influenza in the PRC – Oseltamivir phosphate product market in the PRC".

Going forward, while we continue to strive to expand our product portfolio and diversify our revenue base, we believe that Kewei will continue to be one of our leading products and a major contributor to our total turnover. In particular, we believe that the granules form of Kewei will be the leading driver of further growth in our revenue.

Other anti-viral products

Please refer to the table set out on page 161 for an overview of our other current anti-viral products.

We intend to expand our product portfolio in this therapeutic area by including products for the treatment of hepatitis C viral infections. In this connection, on 22 July 2015, we have entered into an agreement with Sunshine Lake Pharma for the right to use all patents and knowhow in relation to yimitasvir phosphate and follow-up direct anti-viral agent compounds. Please see "Business – Future Products – Future anti-viral products – Future products relating to the treatment against Hepatitis C viral infections" and "Financial Information – Subsequent Events".

Products for the treatment of endocrine and metabolic diseases

Endocrine diseases relate to the endocrine system of a person. The "endocrine system" of a person refers to the collection of glands that secrete hormones directly into the circulatory system to be carried towards distant target organs. Metabolic diseases refers to conditions where abnormal chemical reactions in a person's body disrupts that person's metabolism. Diabetes and hyperuricemia are diseases in this therapeutic area.

As at the Latest Practicable Date, we currently manufacture and sell two products for the prevention and treatment of endocrine and metabolic diseases, with the most significant product being Ertongshu. For the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our turnover from sales of products for endocrine and metabolic diseases was RMB19.4 million, RMB25.5 million, RMB32.5 million and RMB15.9 million, respectively. This represents a CAGR of 29.4% from 2012 to 2014.

We believe that products in this the therapeutic area of endocrine and metabolic diseases have great potential in the PRC and we intend to expand our product range in this therapeutic area. In particular, we believe that our pipeline products for the treatment of diabetes will become a major driver of our Company's future growth. Please see "Business – Future Products – Future products for endocrine and metabolic diseases – Future products relating to the treatment of diabetes".

Ertongshu (Benzbromarone Tablets)

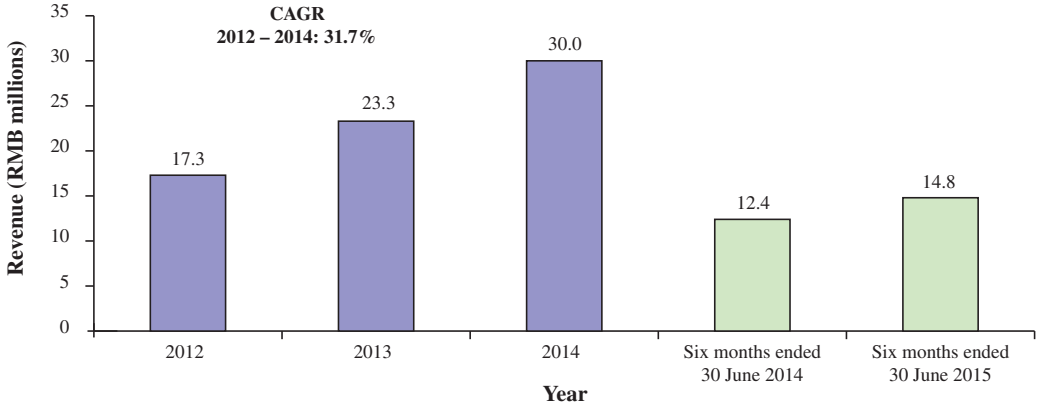
Benzbromarone is a drug used for the treatment of excess uric acid in blood (hyperuricemia), which could often lead to gout. Gout is a medical condition usually characterised by recurrent attacks of acute inflammatory arthritis and often affects a person's feet and toes. Gout occurs where there are excess uric acid in blood. In such cases, the uric acid may crystallize, and the crystals may deposit in joints, tendons and surrounding tissues. As a result, inflammation occurs in the joints. The metatarsal-phalangeal joint at the base of the big toe is one of the most commonly affected areas. Our benzbromarone tablets are marketed under the name "Ertongshu" (爾同舒). Ertongshu is sold in 50mg tablet form only.

Benzbromarone is a benzofuran derivative which lowers serum uric acid and increases urinary uric acid excretion. In clinical studies, benzbromarone reduces serum uric acid levels by one-third to one-half. Single-dose experimental studies have shown benzbromarone to have a uric acid lowering effect similar to that of a therapeutic dose of probenecid or sulfinpyrazone, but unlike these drugs, benzbromarone can be administered in a once daily regime.

The use of benzbromarone products for the treatment of excess levels of uric acids and gout have been recognised by various medical associations. For example, The British Society for Rheumatology has recognised the use of benzbromarone for managing recurrent, intercritical and chronic gouts. In the PRC, the Endocrine Studies Sub-Association of the Chinese Medical Association (中華醫學會內分泌學分會) has also recognised benzbromarone products as an effective treatment against patients with excess levels of uric acids and for gout.

We sell Ertongshu throughout the PRC, and it is one of our top five selling product by turnover. During the Track Record Period, our turnover generated from the sale of Ertongshu was RMB17.3 million, RMB23.3 million, RMB30.0 million and RMB14.8 million for the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, representing 6.4%, 7.4%, 6.8% and 3.9% of our turnover in their respective period and a CAGR of 31.7% from 2012 to 2014.

Turnover Generated from the Sale of Ertongshu (2012 – 1H 2015)



According to PICO, we were ranked third by market share in each of 2012, 2013 and 2014 in respect of the benzbromarone product market in the PRC. In 2014, our market share of the benzbromarone product market in the PRC was approximately 10.4%. Please see "Industry Overview – Endocrine and metabolic diseases in the PRC – Hyperuricemia in the PRC – Benzbromarone product market in the PRC".

In respect of the production of Ertongshu, we produce the necessary benzbromarone API internally. This means that we do not rely on external third party suppliers in relation to the production of Ertongshu, which we believe provides us with a competitive advantage against our competitors in this market in the PRC.

Other products for the treatment of endocrine and metabolic diseases

Please refer to the table set out on page 161 for an overview of our other current products for the treatment of endocrine and metabolic diseases.

Products for the treatment of cardiovascular diseases

Cardiovascular diseases are diseases occurring in a patient's heart or blood vessels and are one of the leading causes of death in the PRC. The underlying causes of cardiovascular diseases vary depending on the nature of the disease. However, cardiovascular diseases are often characterised by high blood pressure (hypertension) and high blood cholesterol.

As at the Latest Practicable Date, we manufacture and sell 7 products for the prevention and treatment of cardiovascular diseases, with the two most significant products being Oumeining and Xinhaining. For the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our turnover from sales of products for cardiovascular diseases was RMB97.0 million, RMB98.3 million, RMB106.2 million and RMB50.3 million, respectively. This represents a CAGR of 4.6% from 2012 to 2014.

Oumeining (Telmisartan tablets)

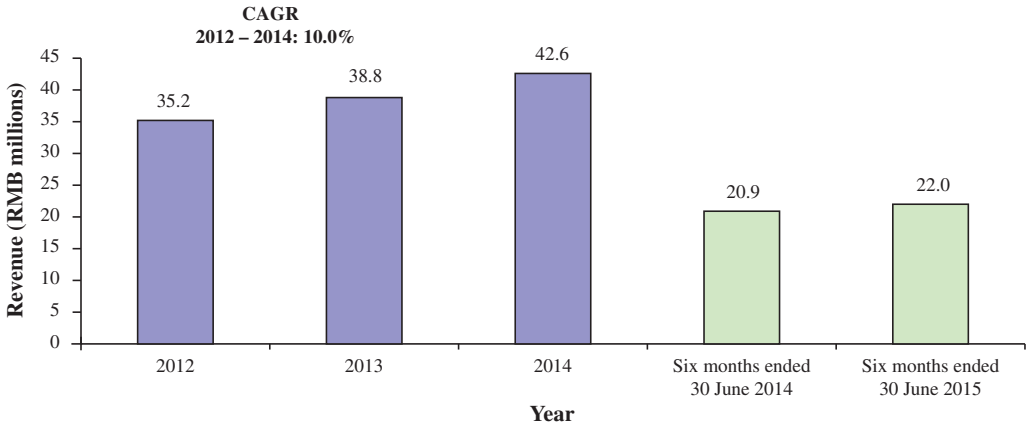
Telmisartan is an angiotensin II receptor antagonist used for the treatment and prevention of hypertension. In the PRC, we market our telmisartan tablets under the name "Oumeining" (歐美寧). This drug is used for patients with high blood pressure and works by relaxing blood vessels to help reduce blood pressure. Oumeining is sold in 40mg tablet form and 80mg tablet form.

Generally, angiotensin II receptor blockers (ARBs) such as telmisartan bind to the angiotensin II type 1 (AT1) receptors with high affinity, causing inhibition of the action of angiotensin II on vascular smooth muscle, ultimately leading to a reduction in arterial blood pressure.

The American Society for Hypertension and the International Society for Hypertension have recognised the use of angiotensin II receptor blockers (ARBs) as one of the main treatments for managing hypertension. In the PRC, according to the 2010 Chinese Guidelines for the Management of Hypertension (中國高血壓防治指南2010), clinical trials have indicated that telmisartan is effective in managing the blood pressure levels of patients with hypertension.

We sell Oumeining throughout the PRC, and it is currently our second highest selling product by turnover. During the Track Record Period, our turnover generated from the sale of Oumeining was RMB35.2 million, RMB38.8 million, RMB42.6 million and RMB22.0 million for the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, representing 13.1%, 12.3%, 9.7% and 5.8% of our turnover in their respective period and a CAGR of 10.0% from 2012 to 2014.

Turnover Generated from the Sale of Oumeining (2012 – 1H 2015)



According to PICO, we were ranked fourth by market share in each of 2013 and 2014 in respect of the telmisartan product market in the PRC. In 2014, our market share of the telmisartan product market in the PRC was approximately 7.0%. Please see "Industry Overview – Cardiovascular diseases in the PRC – Hypertension in the PRC – Angiotensin II receptor antagonists product market in the PRC".

Xinhaining (Amlodipine besylate tablets)

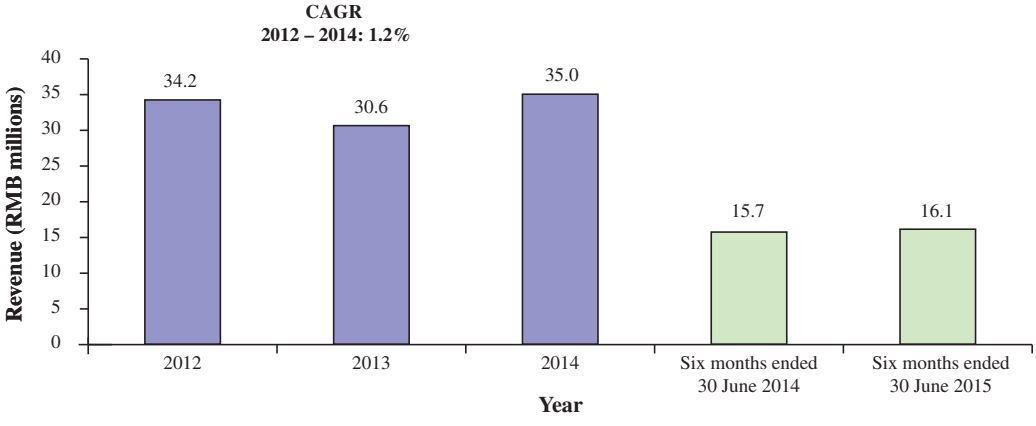
Amlodipine besylate is used for the treatment and prevention of hypertension and chest pains, as well as the treatment of artery diseases. In the PRC, we market amlodipine besylate tablets under the name "Xinhaining" (欣海寧). Xinhaining is sold in 5mg tablet form only.

This drug is used for patients with hypertension and belongs to a class of drugs known as "calcium channel blockers". Amlodipine inhibits calcium ions into vascular smooth muscle cells and cardiac muscle cells. The contractile processes of cardiac muscle and vascular smooth muscle are dependent upon the movement of calcium ions from the extracellular compartment to the intracellular compartment through specific ion channels. Amlodipine inhibits calcium ion influx across cell membranes selectively, with a greater effect on vascular smooth muscle cells. By disrupting the movement of calcium through such channels, it reduces blood vessel stiffness and thereby reduces blood pressure.

The American Society for Hypertension and the International Society for Hypertension has recognised the use of calcium channel blockers as one of the main treatments for managing hypertension. In the PRC, according to the 2010 Chinese Guidelines for the Management of Hypertension (中國高血壓防治指南2010), clinical trials have indicated that amlodipine is effective in managing the blood pressure levels of patients with hypertension.

We sell Xinhaining throughout the PRC, and it is one of our top five selling products by turnover. During the Track Record Period, our turnover generated from the sale of Xinhaining was RMB34.2 million, RMB30.6 million, RMB35.0 million and RMB16.1 million for the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, representing 12.7%, 9.7%, 7.9% and 4.2% of our turnover in their respective period and a CAGR of 1.2% from 2012 to 2014.

Turnover Generated from the Sale of Xinhaining (2012 – 1H 2015)



According to PICO, we were ranked sixth by market share in 2014 in respect of the amlodipine product market in the PRC. In 2014, our market share of the amlodipine product market in the PRC was approximately 2.3%. Please see "Industry Overview – Cardiovascular diseases in the PRC – Hypertension in the PRC – Calcium channel blocker product market in the PRC".

Other products for cardiovascular diseases

Please refer to the table set out on page 161 for an overview of our other current products for the treatment of cardiovascular diseases.

Other products

We currently manufacture a number of other products covering a broad range of drugs, including antibiotics, medicine used for the treatment of allergies, medicine used for the treatment of rheumatism and respiratory diseases. Going forward, we intend to expand our product portfolio in the digestive diseases therapeutic area (which we believe will be one of our key therapeutic areas going forward).

For the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our turnover from sales of other products was RMB139.3 million, RMB117.2 million, RMB102.8 million and RMB44.2 million, respectively.

In this "Other products" category, Xining, was our leading contributor to our turnover during the Track Record Period. A brief description of Xining is set out below.

Please refer to the table set out on page 161 for an overview of our other current products.

Xining (Cetirizine hydrochloride dispersing tablets)

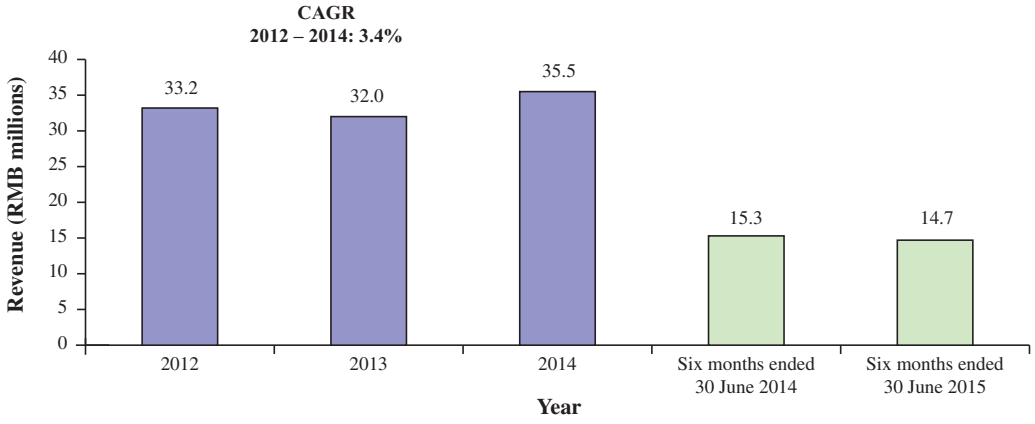
Cetirizine hydrochloride is a generic drug used for the treatment of hay fever, allergies, colds and swelling. In the PRC, we market our cetirizine hydrochloride dispersing tablets under the name "Xining" (喜寧). Xining is sold in 10mg tablet form only.

Cetirizine hydrochloride is a second-generation antihistamine and is particularly effective in relieving allergies by blocking the relevant receptors that causes the relevant symptoms. It produces selective inhibition of peripheral histamine (H1) receptors which serve to reduce or eliminate effects mediated by histamine, an endogenous chemical mediator released during allergic reactions. Cetirizine hydrochloride belongs to second generation of H1-antihistamines which are newer drugs that are much more selective for peripheral H1 receptors than to the central nervous system H1 receptors or cholinergic receptors. This selectivity significantly reduces the occurrence of adverse events, such as sedation, while still providing effective relief of allergic conditions.

Second generation antihistamines, such as cetirizine hydrochloride, are recommended drugs for patients with allergies and primary complaints of sneezing and itching, with cetirizine hydrochloride being one of the most potent drugs in this area.[4]

We sell Xining throughout the PRC, and it is one of our top five selling products by turnover. During the Track Record Period, our turnover generated from the sale of Xining was RMB33.2 million, RMB32.0 million, RMB35.5 million and RMB14.7 million for the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, representing 12.3%, 10.1%, 8.1% and 3.8% of our turnover in their respective period and a CAGR of 3.4% from 2012 to 2014.

Turnover Generated from the Sale of Xining (2012 – 1H 2015)



APIs

APIs, or active pharmaceutical ingredients, are substances or substance combinations used for manufacturing a drug product. APIs cannot be used by patients directly and require further processing by pharmaceutical manufacturers before they can be used for treatment on patients. The APIs that we manufacture are primarily for self-use and generally not for commercial sale. For example, we manufacture oseltamivir phosphate APIs for the purposes of producing Kewei in capsules and granules form and we manufacture benzbromarone API for the purposes of producing Ertongshu. While the production and sale of APIs do not form our core business, we do produce and supply APIs to a smaller number of pharmaceutical companies in the PRC and overseas (such as pharmaceutical companies in Argentina, India, Bangladesh, South Korea, and Pakistan).

We have received manufacturing permits for 11 types of APIs. For the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our turnover from sales of API products was RMB33.8 million, RMB28.2 million, RMB16.5 million and RMB7.9 million, respectively, representing 12.6%, 8.9%, 3.8% and 2.1% of our turnover in the respective periods. This downward trend reflects our intention of focusing on the production of API for self-use.

[4] Clinical Practice Guideline: Allergic Rhinitis – American Academy of Otolaryngology – Head and Neck Surgery.

We set out below a summary of our current manufacturing permits in relation to APIs.

API Name	Manufacturing Permit Number	Brief Description	Expiry Date
Oseltamivir phosphate (磷酸奧司他韋)	H20061094	APIs used to produce anti-influenza medicine. This is the API for our leading product, Kewei	8 June 2016
Benzbromarone (苯溴馬隆)	H20040347	APIs used to produce medicine for the treatment of excess level of uric acid and gout	29 June 2020
Telmisartan (替米沙坦)	H20040804	APIs used to produce medicine for the treatment of hypertension	29 June 2020
Tiopronin (硫普羅寧)	H20045400	APIs used to produce medicine for the treatment of disorders relating to kidney and liver	29 June 2020
Valacyclovir Hydrochloride (鹽酸伐昔洛韋)	H20057313	APIs used to produce anti-viral medicine for the treatment of cold sores chickenpox and herpes	29 June 2020
Lansoprazole (蘭索拉唑)	H20059733	APIs used to produce medication for reduction gastric acid production	23 November 2020
Levamlodipine (苯磺酸左旋氨氯地平)	H20059853	APIs used to produce medication for the treatment of hypertension	23 November 2020
Mycophenolate Mofetil (嗎替麥考酚酯)	H20083209	APIs used to produce medication for organ rejection (a type of immunosuppressant)	17 March 2018
Zidovudine (齊多夫定)	H20123391	APIs used to produce anti-viral medicine, especially for the treatment of HIV	10 December 2017
Fudosteine (福多司坦)	H20130123	APIs used to produce medicine for the treatment of respiratory diseases	23 October 2018
Metronidazole (甲硝唑)	H42022250	APIs used to produce antifungal medicine	29 June 2020

List of All of Our Current Products Manufactured and Sold in the PRC (Excluding APIs)

Active Ingredient in Product (Generic name)	Manufacturing Permit Number	Dosage Form	Brief Summary	Included in National Medical Insurance Drugs Catalogue?	Included in National List of Essential Drugs?	Expiry Date
Anti-viral Products						
Oseltamivir phosphate (磷酸奧司他韋)	H20065415	75mg capsule	Anti-influenza medication	Yes	No	8 June 2016
	H20080763	15mg granules		No	No	25 November 2018
	H20093721	25mg granules		No	No	23 June 2019
Ganciclovir (更昔洛韋)	H20067757	0.25g injectable form	General anti-viral medication in injectable form	Yes	No	9 August 2016
Valacyclovir Hydrochloride (鹽酸伐昔洛韋)	H20083437	0.3g tablet	Anti-viral medication used to treat cold sores chickenpox and herpes	Yes	No	21 May 2018
Famciclovir (泛昔洛韋片)	H20094056	0.25g tablet	General anti-viral medication	Yes	No	5 November 2019
Kushenin (苦參素)	H20080045	0.1g dispersing tablet	Anti-viral medication for the treatment of hepatitis b virus	No	No	21 February 2018
Products for the treatment of endocrine and metabolic diseases						
Benzbromarone (苯溴馬隆)	H20040348	50mg tablet	Medicine used for the treatment of high uric acid/gout	Yes	No	29 June 2020
Glipizide (格列吡嗪)	H20055104	5mg capsule	Medicine used for the treatment of Type 2 diabetes	Yes	Yes	29 June 2020
Products for the treatment of cardiovascular diseases						
Telmisartan (替沙米坦)	H20040805	40mg tablet	Medicine for the treatment and prevention of hypertension	Yes	No	29 June 2020
	H20050934	80mg tablet		Yes	No	29 June 2020
Amlodipine Besylate (苯磺酸氨氯地平)	H20066843	5mg tablet	Medicine for the treatment and prevention of hypertension	Yes	Yes	5 July 2016

Active Ingredient in Product (Generic name)	Manufacturing Permit Number	Dosage Form	Brief Summary	Included in National Medical Insurance Drugs Catalogue?	Included in National List of Essential Drugs?	Expiry Date
Simvastatin (辛伐他汀)	H20056875	10mg tablet	Medicine for the treatment of high cholesterol and artery-related conditions	Yes	Yes	29 June 2020
	H20056876	20mg tablet		Yes	Yes	29 June 2020
Lisinopril (賴諾普利)	H20065066	10mg tablet	Medicine for treatment of hypertension	Yes	No	12 May 2016
Ozagrel (奧扎格雷鈉)	H20084128	Injectable form	Medicine for treating blood clots	Yes	No	11 September 2018
Other Products						
Cetirizine hydrochloride (鹽酸西替利嗪)	H20040308	10mg dispersing tablet	Medication for the treatment of allergies	Yes	No	29 June 2020
Azithromycin (阿奇霉素)	H20054869	0.25g capsule	Antibiotics	Yes	Yes	29 June 2020
	H20057591	0.1g dry suspension (干混懸劑)		No	No	29 June 2020
	H20057924	0.25g dispersing tablet		Yes	No	29 June 2020
	H20093665	0.25g injectable form		Yes	No	30 May 2019
Clarithromycin (克拉霉素)	H20046345	0.25g tablet	Antibiotics	Yes	Yes	29 June 2020
	H20066047	0.25g dispersing tablet		Yes	No	16 June 2016
Roxithromycin (羅紅霉素)	H20055703	0.15g tablet	Antibiotics	Yes	No	29 June 2020
Fluconazole (氟康唑)	H20045719	50mg capsule	Antifungal medicine	Yes	Yes	29 June 2020
Oxaprozin (奧沙普秦)	H20058705	0.2g tablet	Medicine for the treatment of rheumatism	No	No	23 September 2020
Mycophenolate Mofetil (嗎替麥考酚酯)	H20083548	0.5g injectable form	Medicine for organ rejection (a type of immunosuppressant)	No	No	5 June 2018
Fudosteine (福多司坦)	H20130122	0.2g tablet	Medicine for the treatment of respiratory diseases	No	No	23 October 2018

Active Ingredient in Product (Generic name)	Manufacturing Permit Number	Dosage Form	Brief Summary	Included in National Medical Insurance Drugs Catalogue?	Included in National List of Essential Drugs?	Expiry Date
Benproperine Phosphate (磷酸苯丙哌林)	H20044667	20mg granules	Medicine for the treatment of respiratory diseases	No	No	29 June 2020
Levofloxacin Lactate (乳酸左氧氟沙星)	H20046711	0.1g tablet	Broad spectrum antibiotics	Yes	No	29 June 2020
Ciprofloxacin Hydrochloride (鹽酸環丙沙星)	H20058144	0.25g tablet	Broad spectrum antibiotics	Yes	Yes	29 June 2020
Lansoprazole (蘭索拉唑)	H20093957	15mg tablet	Medicine for reduction of gastric acid production	Yes	No	22 September 2019
Famotidine (法莫替丁)	H20053266	20mg capsule	Medicine for the treatment and prevention of ulcers in the stomach	Yes	Yes	29 June 2020

Total Number of Products Manufactured and Sold in the PRC (excluding API): 33

FUTURE PRODUCTS

We intend to diversify our product portfolio in the future with the objective of spreading our revenue across multiple products across various key therapeutic areas. The Directors believe that the PRC pharmaceutical industry is still a growing industry, and in particular, the Directors believe that there is growth potential in the PRC markets for anti-viral products, products for the treatment of endocrine and metabolic diseases and products for the treatment of digestive diseases.

In the anti-viral therapeutic area, we intend to expand our product range to include products for the treatment against the Hepatitis C virus. Based on information provided by PICO, the size of the PRC pharmaceutical market in 2014 in relation to anti-viral products for the treatment against the Hepatitis C virus was approximately RMB3,542 million. PICO noted that as a number of next generation anti-Hepatitis C virus drugs being developed will greatly increase the effectiveness of the treatment against Hepatitis C infections, such drugs will drive the rapid growth of the anti-Hepatitis C virus drug market in the PRC. We intend to capitalise fully on this growing market by developing anti-viral drugs for the treatment of Hepatitis C.

In the endocrine and metabolic disease therapeutic area, we are focused on products for the treatment of diabetes. According to the IDF, there were 98.4 million people in the PRC suffering from diabetes in 2013. The IDF forecasted that this number will increase to 142.7 million by 2035. According to PICO, the size of the PRC pharmaceutical market (based on retail prices, excluding traditional Chinese medicine products) in relation to products for the treatment of diabetes increased from RMB17,021 million in 2010 to RMB31,630 million in 2014, representing a CAGR of 16.8%. PICO forecasted that the size of the PRC pharmaceutical market (based on retail prices, excluding traditional Chinese medicine products) in relation to products for the treatment of diabetes will increase to around RMB59,400 million by 2019, representing a CAGR of 13.4% from 2014 to 2019. We intend to fully capitalise on this fast growing market by developing second generation and third generation insulin products for the treatment of diabetes.

In the digestive diseases therapeutic area, we intend to focus on products that treat stomach ulcers, in particular, drugs belonging to the "proton pump inhibitor (PPI)" class. According to PICO, the size of the proton pump inhibitor (PPI) product market in the PRC increased from RMB10,660 million in 2010 to RMB21,833 million in 2014, representing a CAGR of 19.6%. PICO forecasted that the size of the PRC pharmaceutical market in relation to PPI products will increase to around RMB43,800 million by 2019, representing a CAGR of 15.0% from 2014 to 2019. Again, with such rapid growth in this market, we intend to introduce in the next few years a number of products within the PPI class to capture this growth in the PRC.

In addition to the products that we are currently developing (or otherwise have the rights to), we also intend to expand further our product portfolio in two additional ways: (i) through acquiring the rights to new products pursuant to the Strategic Cooperation Agreement; and (ii) through strategic acquisitions or licences of new products from third parties.

The products set out below are the key products currently in our pipeline. As at the Latest Practicable Date, we have 18 key products in different stages of development.

Future anti-viral products

Future products relating to the treatment against Hepatitis C viral infections

Viral hepatitis refers to the inflammation of a person's liver as a result of a viral infection. Hepatitis C is caused by infection with the Hepatitis C virus (HCV). HCV is most efficiently transmitted through large or repeated percutaneous exposure to infected blood. The majority of persons infected by the HCV might not be aware of their infection because they are not clinically ill. However, infected persons serve as a source of transmission to others and are at risk for chronic liver disease or other HCV-related chronic diseases decades after infection.

As noted in the "Industry Overview" section of this prospectus, according to PICO, the PRC market for anti-viral pharmaceutical products relating to Hepatitis C may grow at a rapid rate. In this connection, we have entered into an agreement with Sunshine Lake Pharma pursuant to which we have acquired the right to use all the relevant knowhow and patents relating to yimitasvir phosphate and follow-up direct anti-viral agent compounds and, upon obtaining the relevant government approvals, the right to manufacture and sell worldwide for a consideration of RMB700 million. The consideration of RMB700 million comprised a down payment of RMB250 million and eight milestone payments totalling RMB450 million payable upon each stage of development or approval of yimitasvir phosphate or the follow-up direct anti-viral agent compounds. The key milestones for payment include the commencement of phase III clinical trial for the first patient, the receipt of CFDA's acceptance notice for introduction application in the name of the Company, the new drug certificate being granted, and the manufacturing permit being granted to the Company. No royalty payment is payable by the Company to Sunshine Lake Pharma. Up to the Latest Practicable Date, the amount of consideration paid to Sunshine Lake Pharma in connection with this agreement was RMB290 million. The amount expected to incur in the three years ending 31 December 2017 and thereafter are RMB460 million and RMB240 million, respectively. The initial down payment of RMB250 million was funded from the proceeds from the Pre-IPO Investment. We intend to use our working capital to fund the payment of the balance of the consideration. The Company plans to obtain government approvals and permits in accordance with relevant laws and regulations, including any guidance or feedback from the CFDA. The Company is currently targeting to obtain the necessary approvals and permits for yimitasvir phosphate on or before 2019 so that it may begin commercial introduction of this product in 2019. The necessary approvals and permits for the follow-up direct anti-viral agent compounds are expected to be obtained in 2020 and onwards. A description of yimitasvir phosphate is set out below. For further information in relation to this agreement, please see "Financial Information – Subsequent Events".

The table below sets out a summary of our future products relating to the treatment against Hepatitis C viral infections:

Product name	Current Stage of Development	Target year for introduction *(Note 1)*	General description
Yimitasvir phosphate (磷酸依米他韋)	Preparing submission for Phases II and III Clinical Trials	2019	Yimitasvir phosphate is an NS5A inhibitor. Although the precise functions of NS5A are unclear, it is believed to serve as a critical regulator of Hepatitis C Virus RNA replication and infectious virus production. NS5A inhibitors, such as yimitasvir phosphate are intended to directly or indirectly disrupt NS5A localization to inhibit the replication and production of the virus. Yimitasvir phosphate is anticipated to be National Class 1.1 drug and we believe it is the first anti-Hepatitis C direct anti-viral agent drug wholly developed by a PRC company.

Note 1: The estimated target year for introduction reflects our current estimate of the year on which we expect such product can be commercially introduced to the PRC market. However, the year on which such products will be introduced will depend on a number of factors, including completing the relevant clinical trials (where applicable) and obtaining all necessary government approvals.

We believe that yimitasvir phosphate will be an important driver for the future growth of our business. In particular, and as mentioned above, with the growing market for Hepatitis C products in the PRC, yimitasvir phosphate will allow us to fully capitalise on this expanding market going forward.

Future products for endocrine and metabolic diseases

Future products relating to the treatment of diabetes

Diabetes is a metabolic disorder that is characterised by high blood glucose (hyperglycaemia) from the perspective of insulin resistance or absolute/relative insulin deficiency. Hyperglycaemia is a common effect of uncontrolled diabetes and over time may lead to serious damages to a patient's body systems.

The PRC has experienced steady growth in relation to the market for second generation insulin products (such as recombinant human insulin) and third generation insulin products (such as insulin glargine and insulin aspart). According to PICO, the size of the second generation insulin product market in the PRC increased from RMB4,367 million in 2010 to RMB7,209 million in 2014, representing a CAGR of 13.4%. In relation to third generation insulin products, the size of the PRC market increased from RMB3,358 million in 2010 to RMB8,648 million in 2014, representing a CAGR of 26.7%.

We intend to fully capitalise on the growing demand for products used for the treatment of diabetes. We intend to become a pharmaceutical company that will have a comprehensive product portfolio for the treatment of diabetes in the PRC, including recombinant human insulin, insulin glargine and insulin aspart. We intend to develop these three different forms of insulin APIs into six different insulin finished products, covering fast acting, short acting, intermediate acting, long acting and pre-mixed insulin products, which we intend to introduce to the PRC market from 2017 to 2020. In addition, as we use the same production platform for the three different forms of insulin APIs, we believe that this simplifies our insulin production process and enables us to expand our production and control costs. We believe this insulin product portfolio will allow us to provide comprehensive treatment options for patients suffering from diabetes in the PRC and allow us to obtain an advantageous position in this fast growing market and develop new profit drivers.

A summary of our key pipeline products for the treatment of diabetes are described below:

Product Name	Current Stage of Development	Estimated Target Year for Introduction *(Note 1)*	General Description
Alogliptin and Metformin fixed-dose combination (阿格列汀二甲雙胍複方)	Preparing to start clinical trials	N/A	Alogliptin and Metformin fixed-dose combination is a prescription medicine used with diet and exercise to improve blood glucose control in adults with type 2 diabetes. Alogliptin is a selective, orally bioavailable inhibitor of the enzymatic activity of dipeptidyl peptidase-4 (DPP-4). Metformin is an antihyperglycemic agent which improves glucose tolerance in patients with type 2 diabetes, lowering both basal and postprandial plasma glucose.

Product Name	Current Stage of Development	Estimated Target Year for Introduction *(Note 1)*	General Description
Recombinant human insulin (重組人胰島素)			
Recombinant human insulin (重組人胰島素)	Phase I Clinical Trials have completed. Currently conducting Phase III pivotal clinical trials.	2017	***Regular Recombinant human insulin*** Regular recombinant human insulin is short-acting insulin. It starts to act approximately 30 minutes after injection, peak at approximately 2 to 3 hours and last for 3 to 6 hours. It is usually given before a meal and in addition to a long-acting insulin.
		2017/2018	***Insulin NPH*** Insulin NPH is intermediate acting insulin comprising of insulin, protamine, and zinc. It starts to act approximately 2 to 4 hours after injection, peak at approximately 4 to 12 hours and last for 12 to 18 hours. It is usually taken twice a day and in addition to a rapid-insulin or short-acting insulin.
		2017/2018	***Premixed 70/30*** Premixed 70/30 is premixed insulin comprising of 70% NPH and 30% regular recombinant human insulin. It starts to act approximately 30 minutes after injection, peak at approximately 2 to 8 hour and last for 10 to 16 hours. It starts later and peaks earlier and higher than long-acting insulin.

Product Name	Current Stage of Development	Estimated Target Year for Introduction *(Note 1)*	General Description
Insulin analogues (胰島素類似物)			
Insulin analogues insulin is genetically altered based on native insulin sequence to create either a more rapid acting or more uniformly acting form of the insulin. Comparing to human insulin, insulin analogues provide a better balance between glycaemic control and tolerability. We are developing three finished products of insulin analogues:			
Insulin glargine (甘精胰島素)	Preparing to start clinical trials	2018	***Insulin glargine*** Insulin glargine is long-acting insulin. It starts to act several hours after injection without pronounced peaks in plasma insulin concentrations and last for over 24 hours. Thus, it maintains a smooth time-action profile with low undesirable risk of hypoglycemia. If necessary, it is often used in combination with rapid-or short-acting insulin.
Insulin Aspart (門冬胰島素)	Preparing to start clinical trials	2019 – 2020	***Insulin Aspart*** Insulin Aspart is rapid-acting insulin. It starts to act approximately 15 minutes after injection and peak at approximately 1 hour and last for 2-4 hours. This is usually taken before or right after meal and in addition to a long-acting insulin.
		2019 – 2020	***Insulin Aspart 70/30*** Insulin Aspart 70/30 is premixed insulin comprising of 70% insulin aspart protamine suspension and 30% insulin aspart. It starts to act approximately 10 to 20 minutes after injection, peak at approximately 1 to 4 hour and last for less than 24 hours. This is usually taken before or right after meal.

Note 1: The estimated target year for introduction reflects our current estimate of the year on which we expect such product can be commercially introduced to the PRC market. However, the year in which such products will be introduced will depend on a number of factors, including completing the relevant clinical trials (where applicable) and obtaining all necessary government approvals.

We believe that one of our key strengths going forward will be our wide range of insulin products, covering both second generation insulin and third generation insulin, and will allow us to drive further revenues through our distribution network.

Future products relating to digestive diseases

Digestive diseases are diseases that cover a broad range of diseases and conditions which may affect a person's oesophagus, stomach, liver, intestines, gall bladder and pancreas and is often in the form of a chronic disease. High levels of stomach acids is a common symptom of digestive diseases.

In relation to this therapeutic area, we intend to focus on a class of products known as "proton pump inhibitors (PPI)" which have demonstrated to be effective for the treatment of peptic ulcers. According to PICO, PPI products are the most commonly used drug for the treatment of peptic ulcers in the PRC (in 2010, PPI products accounted for 61.9% of the PRC market in relation to drugs used for the treatment of peptic ulcers and this increased to 74.3% in 2014).

According to PICO, the size of the PPI product market in the PRC increased from RMB10,660 million in 2010 to RMB21,833 million in 2014, representing a CAGR of 19.6%. PICO forecasted that the size of the PRC pharmaceutical market in relation to PPI products will increase to around RMB43,800 million by 2019, representing a CAGR of 15.0% from 2014 to 2019.

A summary of our pipeline PPI products are set out below.

Product name	Current Stage of Development	Target year for introduction *(Note 1)*	General description
Proton pump inhibitors (PPIs)			
PPIs are a group of drugs whose main action is a pronounced and long-lasting reduction of gastric acid production. PPIs are commonly used to treat gastroesophageal reflux disease (GERD), erosive esophagitis, duodenal ulcers, and pathologic hypersecretory conditions.			

Product name	Current Stage of Development	Target year for introduction *(Note 1)*	General description
Lansoprazole for injection (注射用蘭索拉唑)	Drug Application was withdrawn in November 2015 as a result of the CFDA's new measures. We expect to re-submit the application during the second half of 2016	2017	Lansoprazole is a first generation of PPIs. It is indicated as an alternative for the short-term treatment of all grades of erosive esophagitis when patients are unable to take the oral lansoprazole.
Esomeprazole sodium for injection (注射用埃索美拉唑鈉)	Awaiting for approval for introduction to market	2016	Esomeprazole sodium is a second generation of PPIs. It is indicated for the short-term treatment of GERD with erosive esophagitis in adults and pediatric patients greater than one month of age, when oral esomeprazole is not possible or appropriate.
Pantoprazole sodium for injection (注射用泮托拉唑鈉)	Awaiting for approval for introduction to market	2019	Pantoprazole sodium is a first generation of PPIs. It is indicated for short-term treatment of GERD associated with a history of erosive esophagitis and Zollinger-Ellison Syndrome when oral pantoprazole is not possible or appropriate.
Rabeprazole sodium for injection (注射用雷貝拉唑鈉)	Pending for submission for approval	N/A	Rabeprazole sodium is a second generation of PPIs. It is indicated for peptic and esophageal ulcers, GERD and erosive esophagitis when oral rabeprazole is not possible or appropriate.

Note 1: The estimated target year for introduction reflects our current estimate of the year on which we expect such product can be commercially introduced to the PRC market. However, the year on which such products will be introduced will depend on a number of factors, including completing the relevant clinical trials (where applicable) and obtaining all necessary government approvals.

Other future products

We set out below a list of our other key pipeline products in our pipeline which we target to introduce in 2020 and beyond.

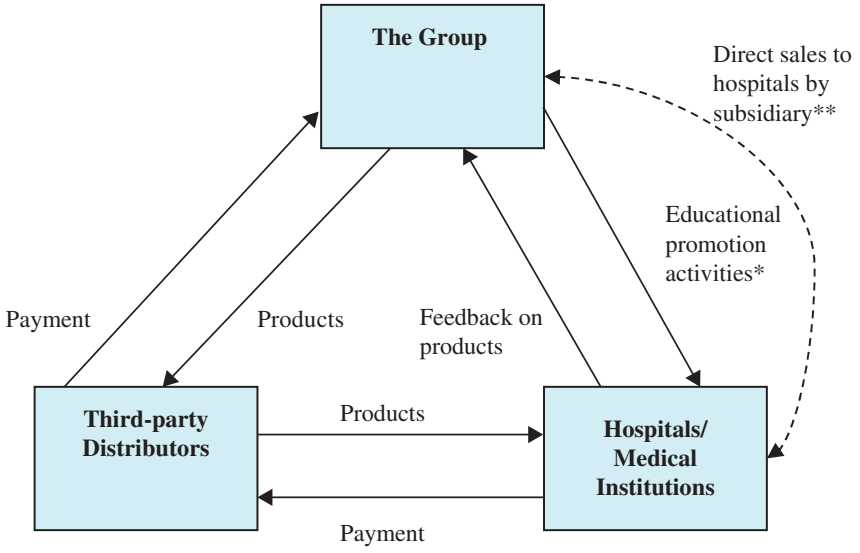
Product name	Current Stage of Development	Therapeutic Area	General Description
Nimesulide dispersing tablet (尼美舒利分散片)	Awaiting for approval for introduction to market	Musculoskeletal system	Medicine used for the treatment of arthritis. It is also used for the treatment of acute pains and inflammations.
Cilostazol tablet (西洛他唑片)	Awaiting for approval for introduction to market	Blood and blood producing organs	Anti-blood clot medicine
Tofacitinib citrate tablet (枸橼酸托法替布片)	Pivotal clinical trial application	Musculoskeletal system	Medicine used for the treatment of arthritis.
Azilsartan medoxomil tablet (阿齊沙坦酯片)	Pivotal clinical trial application	Cardiovascular system	Medicine used for the treatment of hypertension.
Olanzapine for injection (注射用奧氮平)	Pivotal clinical trial application	Central nervous system	Medicine used for the treatment of schizophrenia and bipolar disorder.
Dry powder suspension olanzapine (奧氮平干混懸劑)	Pivotal clinical trial application	Central nervous system	Medicine used for the treatment of schizophrenia and bipolar disorder.

With a strong pipeline for future products going forward, in particular, the expansion of our product portfolio to cover products treating Hepatitis C viral infections, diabetes and digestive diseases, we believe that we will not only be able to diversify our revenue base, but capitalise on the growth potential in our key therapeutic areas.

SALES, MARKETING AND DISTRIBUTION

Our approach to generating demand for our products is based on two central strategies: educational promotion activities (學術推廣) and strengthening and optimising our distribution network. As at 30 June 2015, we have 179 employees engaged in our sales, marketing and distribution activities and 1,594 third-party distributors. Our GSP-certified third-party distributors are located throughout the PRC, which enables us to deepen our market penetration and expand our coverage of hospitals and other medical institutions throughout the PRC. We believe that this approach optimises the allocation of our sales, marketing and distribution resources in an effective manner.

The diagram below illustrates the general relationships between us, third-party distributors, hospitals and other medical institutions and end-users of our products.



* Most of our educational promotion activities during the Track Record Period were in relation to Kewei.

** Our wholly-owned subsidiary, Yichang HEC Pharmaceutical, sold a small amount of our products directly to hospitals/medical institutions during the Track Record Period.

Our sales are largely generated through direct sales to GSP-certified third-party distributors in the PRC. During the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our sales to customers in the PRC were RMB248.9 million, RMB304.7 million, RMB440.7 million and RMB382.8 million, respectively, representing approximately 92.4%, 96.3%, 100.0% and 100.0% of our turnover for the respective periods. The remaining portion of our turnover are from sales of APIs to our overseas customers. See "Business – Sales, Marketing and Distribution – Sales outside the PRC".

During the Track Record Period, we have not: (i) received any material complaints from our customers in relation to our products; and (ii) been subject to any material product recalls in respect of our products.

Our sales and marketing department is responsible for developing our overall sales and marketing strategies. The sales and marketing department establishes our marketing strategies for each of our products through its research and analysis of the competitive positioning of our products and coordinates the various other departments involved in our marketing and promotion activities. Our sales and marketing department is also responsible for preparing marketing strategies for our future products, including market research and planning, allocation of marketing resources and pricing strategy. Going forward, as our product portfolio expands, we intend to increase the number of our sales and marketing staff, including developing specialist teams for our key products (such as Kewei). We believe that by centralising and coordinating our approach, it enables us to implement overall brand strategies through educational promotion activities and professional marketing.

Educational promotion activities (學術推廣)

In general, educational promotion activities refer to promotional activities for doctors and other medical practitioners from medical institutions through educating them on our products, while at the same time receiving feedback from them on our products and our competitors' products. We consider this to be a two-way communication process that allows us to educate hospital management, doctors and other medical practitioners on the benefits and uses of our products and at the same time allows us to understand their concerns regarding not only our products, but also products that are similar to our products. We also seek to understand their perception of the effectiveness of our products in the treatment and prevention of the relevant diseases or conditions compared to other products and also to demonstrate to them why our products should be prescribed for the relevant diseases and conditions. We believe that educational promotion activities raise the awareness of our product portfolio among doctors and other medical practitioners, who would ultimately decide what types of medicine should be dispensed to patients. By raising the profile of our products to doctors and other medical practitioners, we also believe that this would ultimately increase the use of our products by patients and thereby strengthen our brand awareness among the general public. We currently do not use or employ any third party promoters in relation to the marketing or promotion of our products.

We currently focus our educational promotion activities in relation to our leading product, Kewei, and in particular, the granules form of Kewei. We have internally produced various slideshows and promotional videos that we show to doctors and other medical practitioners on the benefits of oseltamivir phosphate in relation to the treatment and prevention of influenza, in particular, the effectiveness of oseltamivir phosphate in treating influenza. Such activities also include information regarding the history and nature of influenza, the dangers of an influenza outbreak, the symptoms of influenza and those persons who are at high-risk of contracting influenza.

We have also sponsored various academic seminars in the PRC to further promote our Company and our brand name. As part of our educational promotion activities for the granules form of Kewei, in 2014, we participated in, among others, the First Guangdong-Hong Kong-Macau Respiratory Forum on Influenza Treatment and Education (第一屆粵港澳呼吸論壇暨廣東省流感規範化診治學術直通車啟動會), the Tenth Central Eastern Region Hospital Pharmaceutical Conference (中南地區第十屆醫院藥學學術會議) and the National Paediatrics Conference (2014年全國兒科年會). We believe that participations in such conferences are an important aspect of our sales and marketing activities as it promotes our brand-recognition, allows us to promote our products to doctors and medical practitioners in a direct and efficient manner and provides opportunities to further develop our relationships with key medical associations and relevant academic bodies.

We intend to increase the amount of our educational promotion activities for our other products, with a focus on increasing our marketing activities in respect of Ertongshu to major hospitals in the major cities of each province as we believe Ertongshu to have growth potential in the PRC.

We conduct regular training for our employees that perform sales, marketing and distribution activities to ensure that they are up-to-date with our latest product portfolio. We also maintain records of our historical sales, marketing and promotional activities. This allows us to regularly review our performance in these areas. Our records also allows us to consolidate the feedback that we receive from doctors and medical practitioners in relation to our products and at the same time, ensures that we do not over-allocate sales and marketing resources to a single medical institution.

In order to motivate our sales employees, we have implemented an incentive scheme for those employees that perform sales, marketing and distribution activities. We evaluate each employee's performance in key areas and in their knowledge of our products, and a portion of such employees' remuneration is linked to his or her performance. We also provide our employees with continuous education and training programmes in relation to various aspects of the PRC pharmaceutical market and how our products are positioned in their respective markets.

Our marketing staff is also kept up to date on the National Medical Insurance Drugs Catalogue, National List of Essential Drugs and the various Provincial Medical Insurance Drugs Catalogue to ensure that the Group is aware of the latest changes to such catalogues and lists. We believe this allows our sales and marketing staff to be aware of the latest changes to such catalogues and lists, which allows them to adjust their discussions and promotional activities with doctors and other medical practitioners accordingly.

Going forward, as our product portfolio expands, we intend to expand the scope of our educational promotion activities to cover our new products. We believe that educational promotion activities are an important aspect of our marketing and sales strategy. In particular, we believe that increasing the awareness and knowledge of not only our products, but also the relevant diseases or conditions that we treat will drive the overall demand for our products in the long term.

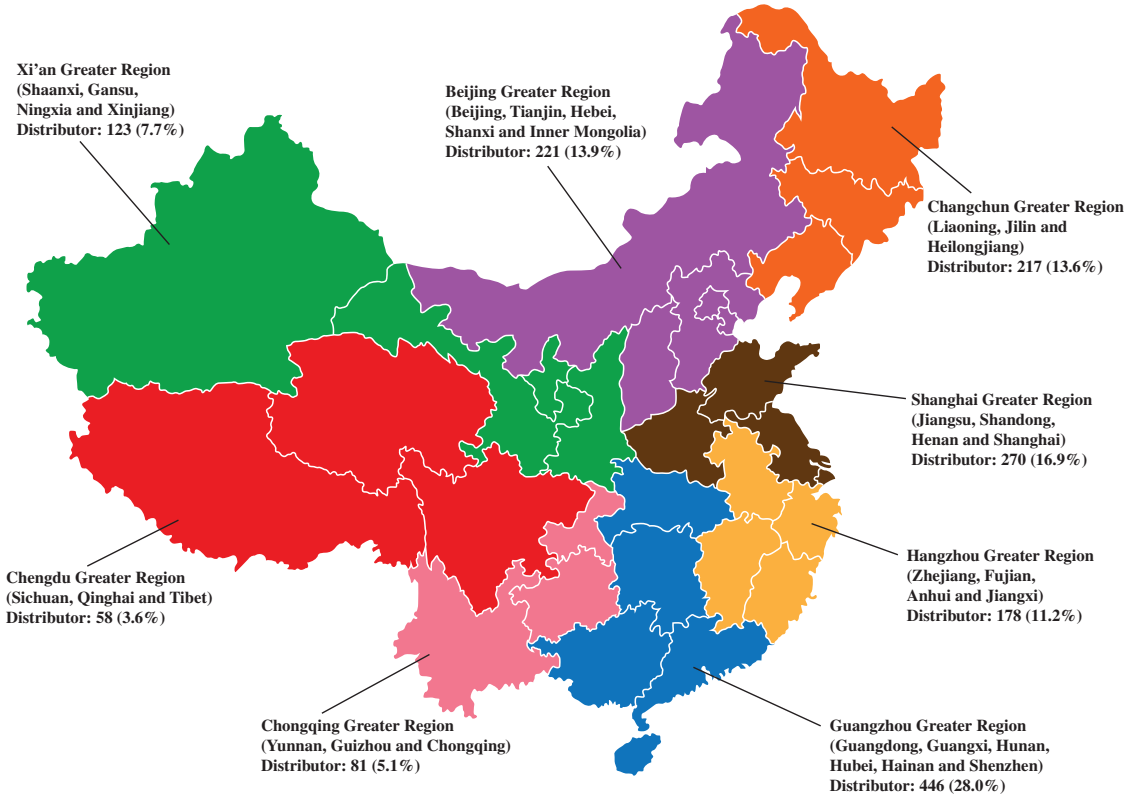
Centralised tender processes

In general, under PRC laws and regulations, the procurement of pharmaceutical products by non-profit making hospitals and other non-profit making medical institutions established by the PRC government at the county level or higher has to be conducted through a centralised tender process. Pursuant to these centralised tender processes, pharmaceutical manufacturers of relevant products are invited to submit their bids to the local government or its designated institution that runs the tender process. The tender selection for each drug product on the tender list is conducted on the basis of several factors, including the bidding price, product quality, curative effectiveness, and the pharmaceutical manufacturer's reputation and business scale. Hospitals and medical institutions then select one or more winning pharmaceutical manufacturers to supply the medicine by placing orders with the relevant pharmaceutical product distributors. During the Track Record Period, we participated in 29 tenders. The bids submitted by the Company do not include any target sales volume to be supplied to the respective hospitals or medical institutions. Each tender may involve a number of our products and the average success rate for our tenders during the Track Record Period was about 81%. During the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, we participated in 4, 6, 9 and 10 tenders, respectively, and the average success rate for our tenders were approximately 91%, 70%, 86% and 79%, respectively.

Our distributor network

As mentioned above, we sell our products to third-party distributors that are GSP certified. All of our third-party distributors are required under PRC laws to obtain pharmaceutical supply permits and GSP certificates. As at 30 June 2015, we had relationships with 1,594 third-party distributors across the PRC.

The table below sets out the number of third-party distributors by regions as at 30 June 2015:



As noted in the diagram above, we categorise our third party distributors into eight greater sales regions, with staff dedicated to developing relationships with the distributors in each of those regions. Having dedicated staff assigned to specific regions allows us to develop closer relationships with the relevant third-party distributors in that region and also allows us to respond to any changes in the demand for our products in the relevant area.

We have a simple "buyer-seller" relationship with our third-party distributors. Once products are sold and delivered to a third-party distributor, the risks and benefits of such products are passed to that third-party distributor. In general, our third-party distributors are commercial companies who would on-sell our products either to: (i) hospitals and other medical institutions; or (ii) other third-party distributors. Since the risk and benefits of our products are passed to our third-party distributors once they have been sold and delivered, we generally do not regulate how our third-party distributors would on-sell such products to others. Please see "Business – Our Products – Anti-viral products – Kewei (Oseltamivir phosphate) – Our relationship with Oseltamivir Phosphate Licensor".

Under our standard form purchase orders, a third-party distributor must notify us in writing (including providing valid proof) of any defects, shortfalls or damages to our products within 10 days of delivery of the relevant products. If no notification is made within such 10 day period, we do not accept any liability in relation to the products that have been delivered to them.

We currently do not enter into long term distribution agreements with our third-party distributors. Sales orders are entered into between our Group and the relevant third-party distributor on a "per order" basis.

As we currently do not enter into any long-term distribution agreements, we may terminate our relationship with a distributor at any time without recourse. We may decide to terminate such relationship for various reasons, such as: (i) if no business is generated from that third-party distributor; (ii) if we consider that the relevant third-party distributor does not have an adequate or ongoing relationship with the hospitals, doctors and other medical institutions that we wish to target; (iii) if we determine that the targeted hospitals, doctors and other medical institutions are more effectively covered by another distributor; (iv) if the relevant third-party distributor fails to maintain its GSP certification; (v) if the relevant third-party distributor has been acquired or merged with another existing third-party distributor; or (vi) we consider the relevant third-party distributor not to have sufficient financial standing to meet its obligations under the relevant sales orders.

As mentioned above, we do not enter into any long-term distribution agreements with our distributors. Therefore, we do not grant geographically exclusive distribution rights to our distributors and we do not impose any minimum purchase requirement on our distributors. PICO is of the view that given the fragmented nature of the PRC pharmaceutical industry, whether a pharmaceutical manufacturer would require its distributors to enter into long-term distribution agreements with it depends on the sales model of the relevant pharmaceutical manufacturer. In addition, PICO is of the view that there is no industry norm in the PRC as to whether a pharmaceutical manufacturer would grant any exclusive geographical distribution rights to its distributors, impose minimum purchase requirements on its distributors or other restrictions or control over how a distributor would on-sell a pharmaceutical manufacturer's products and any such conditions and restrictions largely depend on the sales model adopted by the relevant pharmaceutical manufacturer in question. Accordingly, PICO is of the view that the Company's current practice mentioned above is not unusual in the PRC pharmaceutical industry.

The table below set out the number of third-party distributors in our network in 2012, 2013, 2014 and for the six months ended 30 June 2015.

	2012	2013	2014	Six months ended 30 June 2015
Number of third-party distributors at the beginning of the period	2,155	2,348	2,190	2,062
New third-party distributors during the period	710	444	396	158
Termination of existing third-party distributors during the period[5]	517[1]	602[2]	524[3]	626[4]
Net increase (decrease)	193	(158)	(128)	(468)
Third-party distributors at the end of the period	2,348	2,190	2,062	1,594

Notes:

(1) Of the 517 distributors terminated in 2012, such distributors together contributed approximately RMB5.9 million to our turnover in 2011. Such 517 distributors did not contribute to our turnover in 2012.

(2) Of the 602 distributors terminated in 2013, such distributors together contributed approximately RMB11.0 million to our turnover in 2012. Such 602 distributors did not contribute to our turnover in 2013.

(3) Of the 524 distributors terminated in 2014, such distributors together contributed approximately RMB10.9 million to our turnover in 2013. Such 524 distributors did not contribute to our turnover in 2014.

(4) Of the 626 distributors terminated in the first six months of 2015, such distributors together contributed approximately RMB18.1 million to our turnover in 2014. Such 626 distributors did not contribute to our turnover in the first six months of 2015.

(5) The year of termination of relationship with a distributor is determined by reference to the year in which no sales are made to that distributor. Therefore, each terminated distributor did not contribute to our turnover in the year of termination.

During 2012 and 2013, we terminated our relationships with a large number of our third-party distributors that we considered to be relatively small-scale operations or who only purchased small amount of products from us on an infrequent basis. We believe that this process should enable us to optimise our distribution network, as we no longer need to devote additional sales and marketing resources for these smaller distributors. This strategy of optimising our distribution network was formalised in 2014. Since 2014, we have implemented a formal strategy of reducing the number of third-party distributors and thereby strengthening and optimising our distribution network. In particular, for the six months ended 30 June 2015, we have decided to discontinue our relationships with 626 third-party distributors. We can do so because we do not enter into any long term or exclusive distribution agreements with any of them. The rationale behind this strategy is that we believe that in the long term, our Company should only maintain distribution relationships with those distributors that have a proven track record in the PRC pharmaceutical industry and are considered to be leaders within their respective regions in the PRC. In addition, by strengthening and optimising our distribution network, we reduce the need to allocate sales and marketing resources to deal with sales orders from smaller distributors that only purchase small volumes of our products or otherwise purchase on an infrequent basis. This allows us to reallocate our sales and marketing resources for other sales and marketing activities, such as further developing our educational promotion activities. In deciding which third-party distributor should be removed from our distribution network, we have undergone a process of reviewing the history of our relationship with the relevant distributors and have assessed the financial strength, market reputation, the size of the relevant distributor, the distributor's relationships with hospitals in the relevant region and industry experience and ranking of the relevant distributors. We also consider the relevant distributors' relationship with other pharmaceutical companies, hospitals and other medical institutions as well as the amount of orders that they have placed with us in the past. We will continue to monitor the performance of our distributors on an annual basis going forward in order to strengthen and optimise our distribution network. We will continue to monitor the amount of orders that are placed with us from our distributors, assess whether the relevant distributors settle invoices within the credit periods granted to them, assess the financial strength, market reputation and the size of distributors, discuss and liaise with key medical institutions and hospitals in their respective regions to identify which distributors are their key suppliers in relation to the therapeutic areas that apply to our products.

The above measures have been implemented as part of our strategy to optimise our distribution network since 2014. The above criteria that we use to monitor the performance of our distributors are generally assessed on a qualitative basis (other than as set out below) by management based on feedback from and assessment by our sales and marketing teams. However, in assessing the size of a distributor, if a distributor purchased less than RMB200,000 of products in a year, we would generally consider such distributor to be of a small-scale operation, and we would consider whether we should limit our business relationship with such distributor or terminate our relationship with that distributor. In assessing the market reputation and financial strength of a distributor, if a distributor delays payment to us for more than three months in more than two instances, we may consider such distributor not to have adequate market reputation and financial strength and may require such distributor to pay for our products upfront before delivery of our products. If such distributor does not agree with this arrangement, we may terminate our relationship with that distributor. Taking the above factors into account, we may further reduce the number of our distributors in order to further strengthen and optimise our distribution network.

As mentioned above, we have a "buyer-seller" relationship with our distributors. Even if we terminate our relationship with a distributor, that distributor does not have the right to return any unsold products to us. Therefore, we do not control the inventory levels of each of our distributors on an ongoing basis but our sales and marketing staff will discuss with our major distributors to understand their inventory levels relating to our products. From the fourth quarter of 2015 we will discuss with our major distributors on a quarterly basis, either by telephone or by physical meeting, which usually involves discussions on the recent sales level of our products, any anticipated future sales order for our products and to which entities our products are on-sold. When determining our major distributors, we sort our distributors by their contribution to our turnover in descending order. The top distributors that together contribute at least 80% of our turnover in the previous year would be regarded as our major distributors. From the fourth quarter of 2015, we also monitor sales orders of unusually large amounts from our major distributors and will investigate the matter if such unusually large orders persists. We would consider an order volume to be unusually large if it is twice the volume of the average order volume for that distributor in the last 12 months. We assign our marketing staff for each province to review and monitor the sales orders from our distributors in that province on a quarterly basis. This would include checking whether there were any unusually large sales orders and also requesting statements from distributors that set out the quantity of our products that have been on-sold. Such statements will be reviewed against historical sales orders for the relevant distributor to assess whether that distributor had accumulated high levels of our products in its inventory. As mentioned below, we also from time to time discuss with personnel from relevant hospitals and medical institutions to enquire their view on our products as well as their view on our distributors. The above measures help us to assess the possibility and mitigate the risk of channel stuffing. During the Track Record Period, we did not find any unusually large orders from our major distributors.

We conduct sales training to our sales and marketing staff in relation to our sales model and in relation to our policies regarding bribery, corruption and other improper conducts. We have established a Code of Conduct for our employees in relation to our values, acceptable criteria for decision-making and our ground rules for behaviour. Our Code of Conduct includes whistle-blowing policies to encourage employees to "speak up" if they become aware of any improper conduct by any employee or distributor, and we may investigate the matter with the relevant employee and/or distributor to ensure that there has not been any improper conduct regarding the sales and distribution of our products. We have also established an anti-money laundering management group and a related working group that are responsible for monitoring and supervising the implementation of our Code of Conduct and related policies.

Please see "Business – Internal Control and Risk Management".

We also from time to time discuss our products with personnel from relevant hospitals and medical institutions to enquire not only their views on our products but also their views on our distributors. In this way, we are able to obtain independent feedback on our distributors.

We also minimise reputational risk to our brand name as we do not grant the use of the "HEC" brand name to our distributors or otherwise allow our distributors to trade in the name of our Company.

To the best knowledge of the Directors, other than our wholly-owned subsidiary, Yichang HEC Pharmaceutical, none of our third-party distributors are owned or controlled by ex-employees of our Group or Parent Company or its affiliates, and are Independent Third Parties. We believe that the use of third-party distribution model for the sale of our products is a customary model for pharmaceutical manufacturers in the PRC and it also allows us to maintain a sufficient coverage of hospitals and medical institutions for the sale of our products across the PRC. We do not have any arrangements with our distributors that allow our distributors to use the "HEC" brand name or otherwise trade in the name of the Company. We are also not aware of any distributors that purport to trade in the name of the Company.

As mentioned above, inventory risk passes to our distributor once our products have been sold and delivered to our distributors. Therefore, other than in relation to Kewei, we do not generally impose conditions on the manner in which our distributors sell our products to hospitals. Please see "Business – Our Products – Anti-viral Products – Kewei (Oseltamivir phosphate)".

In relation to credit extended to our third-party distributors, we usually offer a credit period of 60 days but this may reduce to 30 days or increase to up to 90 days of delivery of our products. The amount of credit that we extend to our third-party distributors would depend on a number of factors, including: (i) the length of our relationship with that third-party distributor; (ii) whether that third-party distributor has a history of defaulting in payments; and (iii) our assessment of the credit-worthiness of that third-party distributor.

During each of the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our total sales to our five largest customers were RMB35.4 million, RMB38.0 million, RMB74.0 million and RMB107.5 million, respectively, representing approximately 13.2%, 12.0%, 16.8% and 28.1% of our turnover for the respective periods. None of our major customers are also our suppliers and vice versa. Turnover generated from sales to our largest customer in each of these periods were RMB15.3 million, RMB11.5 million, RMB22.2 million and RMB32.9 million, respectively, representing approximately 5.7%, 3.6%, 5.0% and 8.6% of our turnover for the respective periods. To the best knowledge of the Directors, all of our five largest customers during the Track Record Period were Independent Third Parties and none of our directors, their close associates or any Shareholder which, to the knowledge of the Directors that owns more than 5% of our Shares, are interested in our five largest customers during the Track Record Period.

We did not enter into any special arrangements with any of our top five customers during the Track Record Period.

Measures to manage cannibalisation and channel stuffing

As mentioned above, since 2014 we have implemented a strategy of reducing the number of our third-party distributors in order to strengthen and optimise our distribution network. By reducing the number of distributors in our network, we minimise the risk of cannibalisation and channel stuffing. In addition, we will continue to monitor the performance of our distributors

on an annual basis (as disclosed above) and since we do not enter into long term distribution agreements with our distributors, we can, at any time, terminate our relationship with any distributor. In this way, we have the ability to manage and minimise the risk of cannibalisation and channel stuffing by removing distributors from our distribution network.

As part of our strategy of strengthening and optimising our distribution network, when we consider whether to terminate a relationship with a distributor, one of the factors that we consider is whether the relevant hospitals, doctors and other medical institutions are more effectively covered by another third-party distributor. In this way, we also minimise the risk of cannibalisation and channel stuffing. From the fourth quarter of 2015, we will also monitor the size of orders from our distributors to see whether there are any unusually large volume of orders from our major distributors. We would consider, on a quarterly basis, an order volume to be unusually large if it is twice the volume of the average order volume for that distributor in the last 12 months. If so, we will investigate the matter to ascertain whether there is a risk of cannibalisation or channel stuffing or whether it is due to an increase in the demand for our products from the hospitals in the relevant area. As mentioned above, from the fourth quarter of 2015, we also request statements from distributors that set out the quantity of our products have been on-sold. Such statements will be reviewed against historical sales orders for the relevant distributor to assess whether that distributor had accumulated high levels of our products in its inventory. In addition, from the fourth quarter of 2015, we will discuss with our major distributors on a quarterly basis, either by telephone or by physical meeting, on the recent sales level of our products, any anticipated future sales order for our products and to which entities our products are on-sold.

On the basis of the above, we do not consider that there was channel stuffing among our distributors during the Track Record Period. In addition, we do not consider the growth in our turnover during the Track Record Period was the result of channel stuffing for the following reasons:

- *Market growth:* As noted in the "Industry Overview" section of this prospectus, many of our key therapeutic areas have experienced appreciable growth during the Track Record Period. From 2012 to 2014, the growth in our turnover achieved a CAGR of around 28.0%. During the same time, the PRC market in relation to anti-influenza products (based on retail prices, excluding traditional Chinese medicine products) achieved a CAGR of 9.9% from 2012 to 2014, the PRC market in relation to products for the treatment of hyperuricemia products (based on retail prices, excluding traditional Chinese medicine products) achieved a CAGR of 25.7% from 2012 to 2014 and the PRC market in relation to products for the treatment of hypertension (based on retail prices, excluding traditional Chinese medicine products) achieved a CAGR of 17.3% from 2012 to 2014. Therefore, there has been natural growth in the respective markets of our key products. In addition, the PRC oseltamivir phosphate product market (based on retail prices), achieved a CAGR of 106.3% from 2012 to 2014.

- *Reduced number of distributors:* As mentioned above, since 2014 we have implemented a policy of reducing the total number of our distributors in order to strengthen and optimise our distribution network. There has been a net reduction of 561 distributors to our distribution network during the Track Record Period, which further mitigates the risk of channels stuffing.

- *Increased focus on educational promotion activities:* Since the end of 2013, we have increased our educational promotion activities in relation to our products, in particular, Kewei. We believe that this generated increased demand for our products among hospitals and medical institutions which in turn led to a natural increase in the turnover from Kewei during the Track Record Period and not from channel stuffing.

- *Increased demand due to outbreaks of influenza:* As noted in the "Financial Information" section of this prospectus, outbreaks of influenza in Anhui, Jiangsu, Zhejiang, Shanghai and Guangdong provinces in 2013 results in a natural increase to the demand for Kewei and thereby contributed to the increase in turnover from this product.

- *Increased demand due to government policies relating to oseltamivir phosphate products:* As noted in the "Financial Information" section of this prospectus, favourable government policies have been issued in Guangdong in May 2013 and December 2014 and Hubei in May 2013 in relation to the use of oseltamivir phosphate products for the treatment of influenza, changing the perception from a reserved drug to drugs for normal clinical treatment of influenza. We believe that this contributed to the natural increase in the demand for our Kewei products and subsequently, an increase in the turnover from Kewei. Please see "Financial Information – Period to Period Comparison of Results of Operations".

Based on the due diligence work done by the Sole Sponsor and its discussions with the Company, the Sole Sponsor does not consider the growth in the Company's turnover during the Track Record Period was the result of channel stuffing.

Sales outside the PRC

During the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our sales to customers outside the PRC were RMB20.3 million, RMB11.8 million, RMB211,000 and RMB57,000, respectively, representing approximately 7.6%, 3.7%, 0.05% and 0.01% of our turnover for the respective periods. During the Track Record Period, we have sold APIs to pharmaceutical companies in various countries, including Argentina, Bangladesh, India, Pakistan and South Korea. All of our overseas revenue comprise the sale of APIs. The downward trend in our overseas sales reflects our strategy of focusing on the sale of our products to customers within the PRC.

Other marketing activities

Another important function of our sales and marketing staff is liaising with the relevant government medical and health offices (政府醫療衛生部門). In particular, we would educate and promote the benefits of our products to such governmental offices with a view of maintaining our products in the relevant Provincial Medical Insurance Drugs Catalogue(s) or advocating those of our products that are not included in such catalogue to be included in the

next update or revision of the relevant Provincial Medical Insurance Drugs Catalogue. In addition, our sales and marketing staff would meet and discuss with the relevant local government medical and health offices to understand their latest policies on healthcare and related matters to enable us to quickly respond to any opportunities or demand in the relevant region. Discussions with relevant local government medical and health offices are reported back to our headquarters so that this can be managed centrally.

Product Pricing

As explained in the section titled "Regulatory Overview", previously, the pricing of pharmaceutical products in the PRC was heavily regulated. From 1 June 2015, pursuant to the Notice Regarding Reforms to the Price of Medical Product (關於印發推進藥品價格改革意見的通知) which was jointly published by NDRC, NHFPC, MOHRSS, MOIIT, MOF, MOFCOM and CFDA on 4 May 2015, pharmaceutical products (other than anaesthetic products and certain psychotropic drugs) would no longer be subject to price controls by the PRC Government. We believe that the new regulatory regime should be beneficial to us in the longer term as this will allow market forces to determine the retail prices of our products. We do not currently manufacture or sell any anaesthetic products or psychotropic drugs.

The changes to the price control regulations since 1 June 2015 did not have an immediate impact on our pricing policy as the price of our products (without the price controls) have largely remained at the same levels as before 1 June 2015. We have identified those of our products that were previously subject to price control regulations and will monitor the relevant product market and set our prices by reference to the latest market price for such products. This would include monitoring whether prices have increased at the retail level and whether there are any substantial increase or decrease to the demand for products in the therapeutic areas that we operate in.

During the Track Record Period (but prior to 1 June 2015), a number of our products were subject to price controls. We would maintain a database of our products that are subject to such pricing regulations, and we would adjust our marketing and sales strategy in accordance with the relevant price controls applicable to each product. Some of our pharmaceutical products that were included in the National Medical Insurance Drugs Catalogue, the Provincial Medical Insurance Drugs Catalogue or the National List of Essential Drugs were previously subject to price controls by the NDRC, either at the national level or the provincial level. Previously, price controls were mainly in the form of fixed or maximum retail prices. From time to time, the NDRC would publish and update a list of pharmaceutical products that were subject to price controls, either at the national level or the provincial level. Retail prices of pharmaceutical products under price controls were determined based on a variety of factors, including the profit margins that the relevant government authorities deem reasonable, the product's type, quality and production costs, as well as the prices of substitute pharmaceutical products.

During the Track Record Period (but prior to 1 June 2015), although the retail prices of pharmaceutical products in the PRC were heavily regulated, there was very little direct regulatory control over the price at which our products were sold to third-party distributors.

Obviously, if the retail price of a pharmaceutical product was fixed or capped, this would indirectly affect the maximum price at which we could sell our pharmaceutical products to third-party distributors. Therefore, during the Track Record Period, we determined our selling price based on a number of factors, including: (i) whether the retail price of the relevant pharmaceutical product is fixed or subject to a maximum cap; (ii) our costs of production; (iii) our gross margins; and (iv) our estimate of the margins of our third-party distributors.

Please refer to "Regulatory Overview – Drug Price".

As the PRC pharmaceutical industry adjusts to the new pricing regulatory regime for pharmaceutical products, there may be some fluctuations in the retail prices of pharmaceutical products (which may include our products). However, we believe that allowing market forces to determine the price of pharmaceutical products would be beneficial to our overall business as there would be scope for us to raise the selling price of some of our products in the event of increased production costs or a general increase in the demand for our products (or their equivalents).

Returned Products Policy

If any products are returned to us, in accordance with our policy on returned products, we would first communicate with the relevant customer/distributor to determine the reason for the returned product (for example, to determine whether it related to the quality or quantity of our product). We would then review the returned products to verify the validity of the relevant customer's claim. Pursuant to our Company's policy, all returned products cannot be repackaged unless we have verified that the relevant product has not been damaged or is not otherwise defective. A risk report will also be prepared before any decision is made to repackage returned products. Such risk report will take into account factors such as the nature of the product, the current state of the product, the transportation history of the product, and the number of days since the product was manufactured. If there is any adverse risk identified, in accordance with our Company's policy, we would not repackage such returned product. Any damaged or defective products will be destroyed.

If, following review of the returned product, we do not consider the relevant customer's claim to be valid, we will liaise with the relevant customer accordingly. If there is a risk of dispute or legal proceedings with a customer, the issue will be elevated to senior management. During the Track Record Period, we did not experience any returned products of a material nature, did not instigate any general recalls of our products and were not involved in any material disputes or legal proceedings with our customers.

As mentioned above, we have a simple "buyer-seller" relationship with our distributors. Therefore, we do not accept returned products from our distributors due to the fact that the distributor was not able to on-sell our products to that distributors' customers.

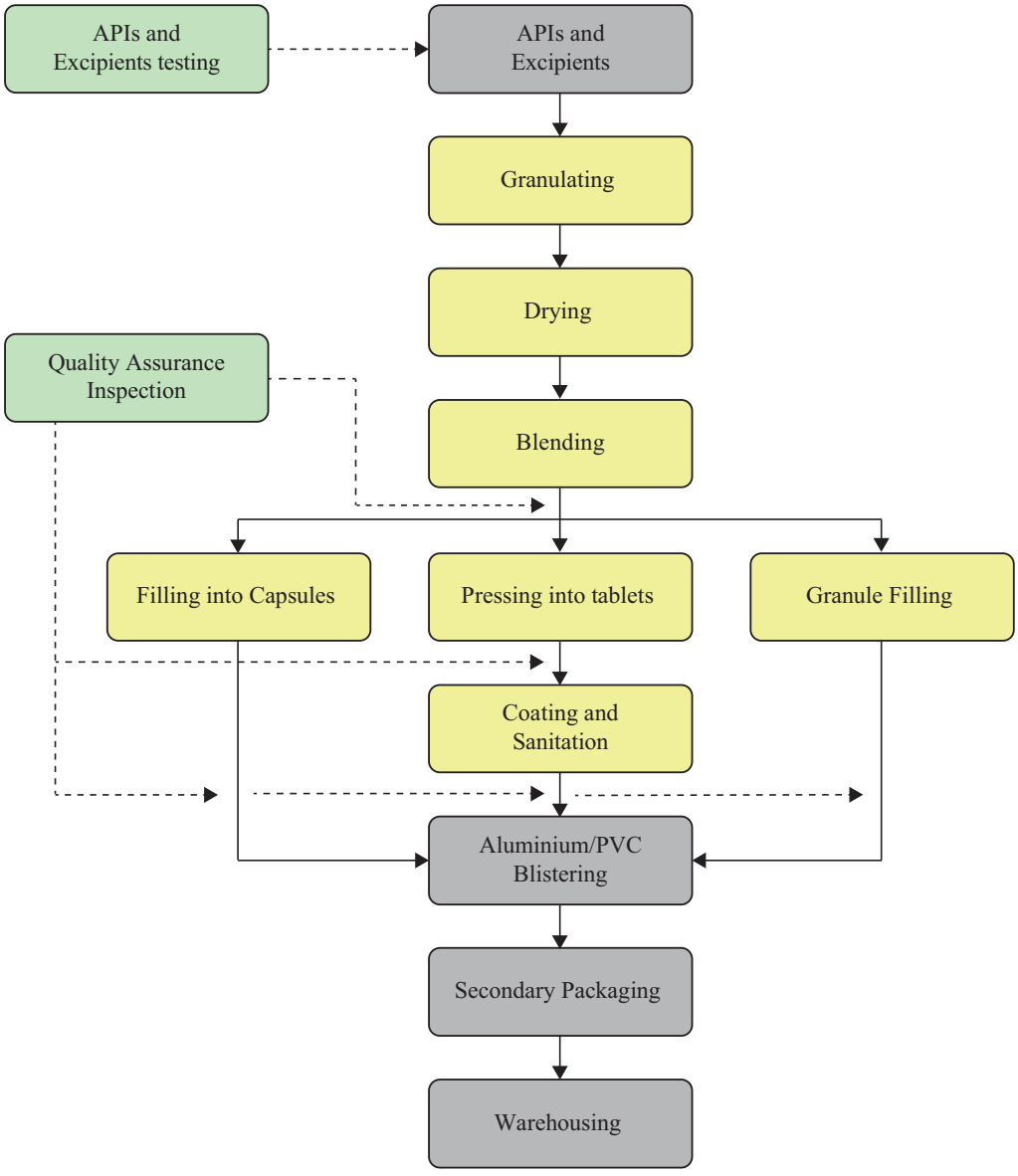
For the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, goods returned to us from our customers amounted to RMB735,000, RMB1,398,000, RMB2,409,000 and RMB494,000, respectively.

MANUFACTURING

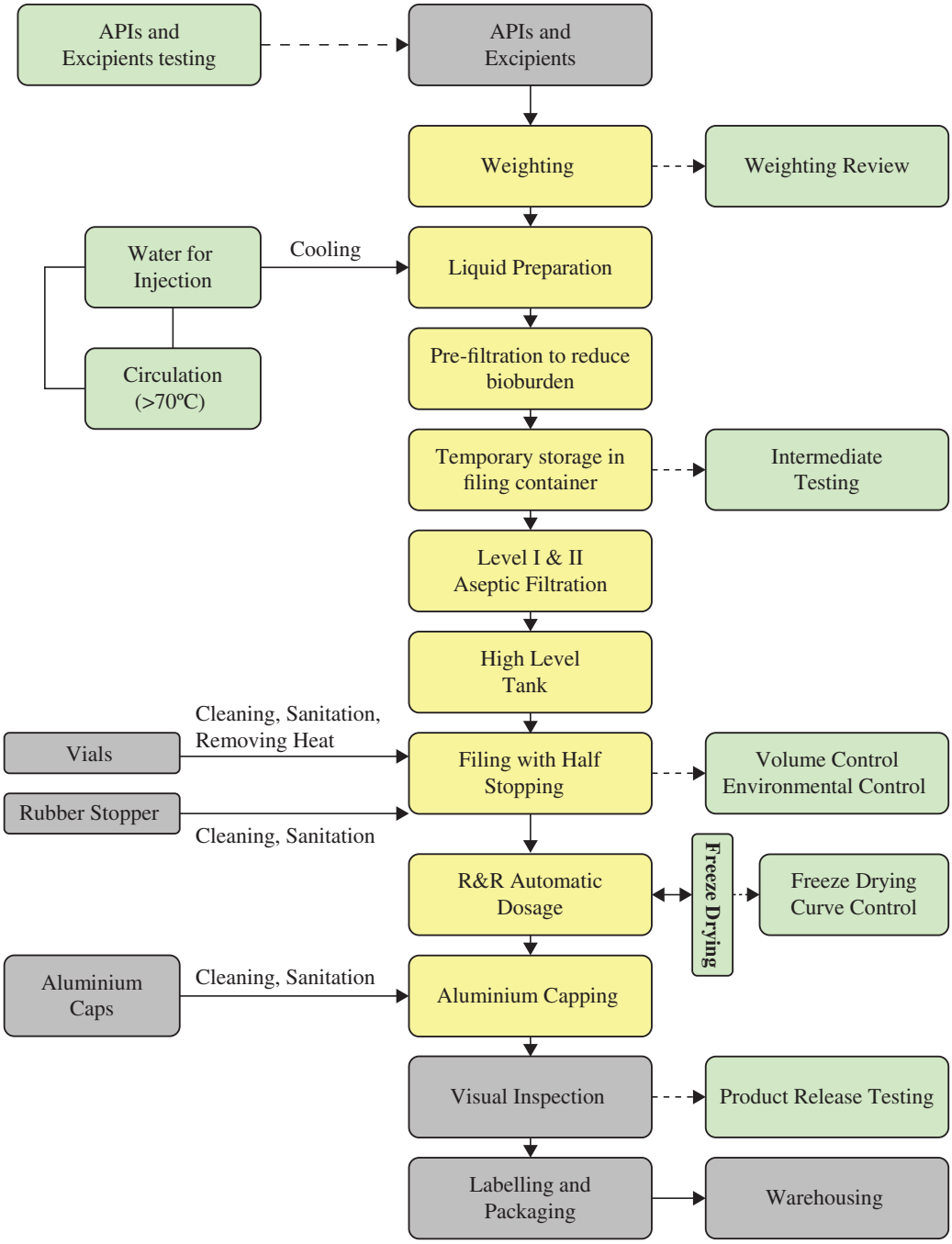
We have obtained GMP certification for the production of our current pharmaceutical products. A summary of our certifications are set out in "Business – Permits, Licences And Certifications". Our PRC legal advisers have advised us that we have obtained all material licences, permits and approvals that are required for our operations.

Pharmaceutical Products

The diagram below is a simplified flow chart setting out the key production processes for granules, capsules and tablets. This is a simplified flow chart of our manufacturing processes, and there may be variations to the processes depending on the nature of the pharmaceutical product. However, this flow chart generally describes the production processes of our top five products (being Kewei, Oumeining, Xining, Xinhaining and Ertongshu).



The diagram below is a simplified flow chart setting out the key production processes for those products in injectable form.



The production time for our top five products are set out in the table below.

Product	Production Time (Hours)	Critical Processes in Production
Kewei (Oseltamivir phosphate)	32 – 40 hours (per 100,000 granules packets)	Granulating (8 hours) Granule Filling (8-16 hours)
	40 – 48 hours (per 300,000 capsules)	Granulating (8 hours) Filling into Capsules (8 hours)
Oumeining (Telmisartan)	64 – 72 hours (per 1,000,000 tablets)	Granulating (8 hours) Tableting (8-16 hours)
Xining (Cetirizine hydrochloride)	64 – 72 hours (per 1,200,000 tablets)	Granulating (8 hours) Tableting (8-16 hours)
Xinhaining (Amlodipine besylate)	56 – 64 hours (per 800,000 tablets)	Granulating (8 hours) Tableting (8-16 hours)
Ertongshu (Benzbromarone)	56 – 64 hours (per 600,000 tablets)	Granulating (8 hours) Tableting (8-16 hours)

Manufacturing Facilities

Our manufacturing facilities are all located in Yidu, China. Our production facilities occupies a total gross floor area of approximately 45,762 square metres across six main production workshops. Please see "Business – Properties" for further information regarding our properties.

The table below sets out a summary of our production facilities in Yidu.

Location	Production Workshop
Yidu Base Area No. 1 (Gross Floor Area: 21,513 square metres)	Oral solid formulation (tablets, capsules and granules)
	Freeze-drying powder for injection
	APIs
Yidu Base Area No. 2 (Gross Floor Area: 13,612 square metres)	APIs (Workshop 226)
	APIs (Workshops 225 and 227)
Yidu Base Area No. 3 (Gross Floor Area: 10,637 square metres)	Insulin (API/Injections)
Total Gross Floor Area: 45,762 square metres	

We own all of our production facilities and production lines in our six production workshops. We have obtained all necessary governmental approvals, permits and licences, including GMP certifications for all of our production workshops and production lines in respect of the products that we currently produce. We also conduct regular inspection, repairs and maintenance to ensure that we comply with the GMP and relevant regulations.

Yidu Base Area No. 1

Our Yidu Base Area No. 1 is located at No. 38 Binjiang Road, Yidu (宜都市濱江路38號). and is our primary production facility and currently produces all of our oral solid formulations (being tablets, granules and capsules).

The table below is a summary of Yidu Base Area No. 1's production capacity, production volume and utilisation rates during the Track Record Period.

		2012			2013			2014			Six months ended 30 June 2015		
Product	**Unit**	**Designed production capacity** *(1)*	**Actual production volume**	**Utilisation rate (%)**	**Designed production capacity** *(1)*	**Actual production volume**	**Utilisation rate (%)**	**Designed production capacity** *(1)*	**Actual production volume**	**Utilisation rate (%)**	**Designed production capacity** *(1)(2)*	**Actual production volume**	**Utilisation rate (%)**
Tablets *(4)*	100,000 tablets	6,000	5,088	84.8%	6,000	5,293.9	88.2%	6,000	5,209.9	86.8%	3,000	2,360	78.7%
Granules *(3)* *(4)*	100,000 packets	800	19.4	2.4%	800	89.1	11.1%	800	323.4	40.4%	800	430	53.8%
Capsules *(4)*	100,000 pieces	3,000	710	23.7%	3,000	512.8	17.1%	3,000	465.9	15.5%	1,500	300	20.0%
Freeze-drying powder for injection *(6)*	100,000 vials	50	7.2	14.4%	50	0	0%	200	4.3	2.2%	100	0.1	0.1%
APIs	Tonnes	3.1	2.2	71.0%	3.1	2.3	74.2%	3.1	1.3	41.9%	1.6	1.8	112.5% *(5)*

Notes:

(1) Designed production capacity for a production line is calculated based on 16 working hours per day and 280 effective production days per year with no material breakdown of facilities.

(2) For the six months ended 30 June 2015, we have assumed that the designed production capacity is 50% of annual designed production capacity.

(3) In 2012 and 2013, the utilisation rate for granules production was low due to low production volume of granules forms of our products. In 2014, we noticed an increase demand for products in granule form, which caused an increase in production volume of granules. Therefore, we started a research and development project to review our production methodology for granules. Since 2015, we were able to increase our production capacity for granules (to a designed production capacity of 160,000,000 packets per year). Due to the increase in the production capacity for granules, we also acquired additional packaging machinery to ensure that our production lines are not bottle-necked by the rate at which we can package our products.

(4) We have two production lines which can be modified to produce tablets, granules or capsules. For the purposes of determining designed production capacity, we have assumed that: (a) production line 1 is used entirely for the production of tablets (280 effective production days per year at 16 working hours per day); and (b) production line 2 is split as to 160 effective production days per year for the production of granules and 120 effective production days per year for the production of capsules (with each effective production day at 16 working hours per day).

(5) The utilisation rate of APIs in the first six months ended 30 June 2015 exceeded 100% because certain APIs in intermediate form were produced during the last quarter of 2014, but the final form APIs were not produced until 2015, which were then accounted into the actual production volume of 2015.

(6) We have a low utilisation rate for the production of freeze-drying powder for injection products as this is not one of our key products produced during the Track Record Period. However, it is intended that this production line will be more utilised when we begin commercial production of some of our future injectable form products.

Yidu Base Area No. 2

Our Yidu Base Area No. 2 is located at No. 62 Binjiang Road, Yidu (宜都市濱江路62號) and is our production facility for APIs, which we currently use sparingly. Workshop 226 produces a wide range of APIs such as oseltamivir phosphate, valacyclovir hydrochloride, levamlodipine, zidovudine and lansoprazole. Workshop 225/227 is mainly used for the production of oseltamivir phosphate API. Our Yidu Base Area No. 2 was initially constructed to manufacture oseltamivir phosphate API, in particular, in response to urgent demands by the PRC government to supply oseltamivir phosphate API to the Central Medical Reserve in 2009. During the Track Record Period, as we did not receive similar urgent orders of oseltamivir phosphate API from the PRC government, the utilisation rates of our Yidu Base Area No. 2 were relatively low. However in our experience, as a designated supplier of oseltamivir phosphate to the Central Medical Reserve, requests from the PRC government tend to be on an urgent basis and often involve a significantly large amount of oseltamivir phosphate API. Therefore, we believe we require such excess capacity in relation to our API production capacity in order to meet any future requests of such nature from the PRC government.

The table below is a summary of Yidu Base No. 2's production capacity, production volume and utilisation rates during the Track Record Period.

		2012			2013			2014			Six months ended 30 June 2015		
Product	Unit	Designed production capacity *(1)*	Actual production volume	Utilisation rate (%)	Designed production capacity *(1)*	Actual production volume	Utilisation rate (%)	Designed production capacity *(1)*	Actual production volume	Utilisation rate (%)	Designed production capacity *(1)(2)*	Actual production volume	Utilisation rate (%)
APIs (Workshop 226)	Tonnes	2.2	0.1	4.5%	2.2	0.2	9.1%	2.2	0.1	4.5%	1.1	0.1	9.1%
APIs (Workshop 225/227)	Tonnes	20	0	0%	20	0.1	0.5%	20	0	0%	10	0	0%

Notes:

(1) Designed production capacity for a production line is calculated based on 24 working hours per day and 330 effective production days per year with no material breakdown of facilities.

(2) For the six months ended 30 June 2015, we have assumed that the designed production capacity is 50% of annual designed production capacity.

Yidu Base Area No. 3

Our Yidu Base Area No. 3 is located at Lot 3, Baotawan Village, Lucheng Town, Yidu (宜都市陸城鎮寶塔灣村東陽光3號地). It is our primary production facility for insulin-related products. During the Track Record Period, we have only produced insulin APIs for sale to overseas customers and for the purposes of clinical trials, for testing of our products and in connection with registration with relevant government authorities. As at the Latest Practicable date, we have not obtained all of the necessary manufacturing permit for the production and sale of insulin products in the PRC.

As advised by our PRC legal advisers, we have obtained the necessary export permits to export our insulin APIs to overseas customers.

We intend to use Yidu Base Area No. 3 as the production facility for recombinant human insulin based products. We currently expect to obtain all necessary manufacturing permits, licences, approvals and certifications for the production of insulin products in the PRC by 2017 in connection with our first recombinant human insulin product to be launched in the PRC. Insulin NPH and Premixed 70/30's manufacturing permits are expected to be obtained during 2017/2018. Please see "Business – Futures Products – Future products for endocrine and metabolic diseases – Future products relating to the treatment of diabetes".

The table below is a summary of Yidu Base No. 3's production capacity, production volume and utilisation rates during the Track Record Period.

		2012			2013			2014			Six months ended 30 June 2015		
Product	Unit	Designed production capacity *(1)*	Actual production volume	Utilisation rate (%) *(3)*	Designed production capacity *(1)*	Actual production volume	Utilisation rate (%) *(3)*	Designed production capacity *(1)*	Actual production volume	Utilisation rate (%) *(3)*	Designed production capacity *(1)(2)*	Actual production volume	Utilisation rate (%) *(3)*
Insulin (API)	kg	600	4.8	0.8%	600	6.9	1.2%	600	7.8	1.3%	300	3.4	3.1%
Insulin (Vials)	10,000 vials	500	0	0%	500	21.4	4.3%	500	26.9	5.4%	250	7.1	2.8%

Notes:

(1) Designed production capacity for a production line is calculated based on 24 working hours per day and 280 effective production days per year with no material breakdown of facilities.

(2) For the six months ended 30 June 2015, we have assumed that the designed production capacity is 50% of annual designed production capacity.

(3) The low utilisation rate is due to the fact that commercial production of our insulin products has not yet commenced. All of our insulin related products are currently in different stages of development. The small volume of insulin products produced during the Track Record Period included a small amount of insulin API sales to overseas customers as well as products produced for testing and research and development purposes as we continue the development of our insulin products. Although we have not started commercial production of our insulin products, we have constructed the insulin production plant at Yidu Base No. 3 with a long-term view such that we could use this insulin production plant initially to produce a small quantity of our insulin products in development for the purpose of testing, drug registration and clinical trials. After we have completed the necessary clinical trials and have received the necessary approvals to begin commercial production, we expect the utilisation rates of our insulin plant to increase.

FUTURE EXPANSION AND UPGRADE PLAN

Our current expansion and upgrade plans comprise:

- a new production line at Yidu Base Area No. 1
- a new API production plant at Yidu Base Area No. 2
- a new insulin production plant at Yidu Base Area No. 3
- a new oral formulation production plant at Yidu Base Area No. 3,

details of which are set out below.

These expansion plans take into account: (i) our pipeline products in our key therapeutic areas (which we currently expect to begin introduction to the market from 2016 (in relation to certain of our proton pump inhibitor products), and from 2017 (in relation to our recombinant

human insulin products)), (ii) the continued growth in the markets that we currently or will operate in (for example, according to PICO, the PRC anti-influenza pharmaceutical products market is forecasted to grow at a CAGR of 8.3% from 2014 to 2019, the PRC pharmaceutical market in relation to products for the treatment of diabetes is forecasted to grow at a CAGR of 13.4% from 2014 to 2019, the PRC pharmaceutical market in relation to products for the treatment of hyperuricemia is forecasted to grow at a CAGR of 13.7% from 2014 to 2019, the PRC pharmaceutical market in relation to products for cardiovascular diseases is forecasted to grow at a CAGR of 12.4% from 2014 to 2019 and the PRC pharmaceutical market in relation to proton pump inhibitor products is forecasted to grow at a CAGR of 15.0% from 2014 to 2019), and (iii) as mentioned above, the need to maintain sufficient excess capacity at our current API production plant in order to meet any urgent demands by the PRC government in relation to oseltamivir phosphate products.

Details of the product types and production capacity of each expansion and upgrade plan are set out as below.

Expansion/Upgrade Plan	**Product Type**	**Annual Production Capacity**
New production line at Yidu Base Area No. 1	Tablets	1 billion tablets
New API production plant at Yidu Base Area No. 2	Telmisartan	20 tonnes
	Benzbromarone	2 tonnes
	Fudosteine	1 tonne
	Mycophenolate Mofetil	1 tonne
New insulin production plant at Yidu Base Area No. 3	Insulin glargine	0.2 tonnes
	Insulin aspart	0.45 tonnes
New oral formulation production plant at Yidu Base Area No. 3	Tablets	1,000 million tablets
	Capsules	500 million capsules
	Granules	200 million packets of granules

The table below sets out the number of staff in production and quality assurance to be hired in each of the three years ending 31 December 2018, based on current market conditions.

	Year Ended 31 December		
	2016	**2017**	**2018**
Production staff	110	100	130
Quality assurance staff	30	25	50
Total	140	125	180

Taking all of the above factors into account and as we strive to improve our market share in relation to each of the product markets that we operate in, we believe that our expansion and upgrade plans will allow us to ensure that our production capabilities are able to meet the forecasted increase in the demand for our products.

New Production Line at Yidu Base Area No. 1

We commenced the construction project of a new production line at our Yidu Base Area No. 1 for the production of oral solid formulation in November 2014 with a total investment of RMB17 million. This new workshop will be equipped with upgraded production lines and equipment with an estimated annual capacity of one billion tablets. The purpose of this new production line is to increase our capacity for the production of oral solid formulation, in particular, tablets. As we continue to seek to expand our product portfolio, we need to ensure that our production capabilities are increased at a similar rate to ensure that we have the ability to produce all of our expanded portfolio of products to meet future increases in demand. It is expected that production will commence in late 2015/early 2016. As at the Latest Practicable Date, we have incurred capital expenditure of approximately RMB17 million for this new production line and we do not expect to incur any further capital expenditure going forward.

New API Production Plant at Yidu Base Area No. 2

The current API production plant at Yidu Base Area No.2 was initially constructed and designed to manufacture oseltamivir phosphate API and other APIs that do not relate to our current key products. While our utilisation rate for this production plant is low, we believe we need to maintain sufficient excess capacity in order to meet any urgent orders of oseltamivir phosphate API from the PRC government. As mentioned above, Workshop 226 in Yidu Base Area No.2 was designed to produce various types of APIs, such as oseltamivir phosphate, valacyclovir hydrochloride, levamlodipine, zidovudine and lansoprazole, whereas Workshop 225/227 was mainly used for the production of oseltamivir phosphate API. Due to the fact that different APIs require different types of facilities and processing steps, the current API production plant could not be used for producing APIs other than those listed above.

Therefore, to facilitate the increasing market demand for our products (including telmisartan and benzbromarone) while maintaining sufficient excess capacity in our current API production plant, we plan to increase our production capacity of API by constructing a new API production plant at Yidu Base Area No.2. We have commenced construction in October 2015 and expected to complete the project in early 2016. The new API production plant will focus on the manufacturing of API (other than oseltamivir phosphate API) and will have new production workshops and other ancillary facilities, which are being designed to meet GMP standards. The expected cost required by the new API production plant will be approximately RMB13 million which will be funded by our working capital. As at Latest Practicable Date, we have not incurred any capital expenditure for this new API production plant. This is because although certain construction work has started in October 2015, we are not obliged to pay our contractors until the end of December 2015. We expect most of the capital expenditure will be incurred in early 2016.

New Insulin Production Plant at Yidu Base Area No. 3

As mentioned above, we are developing three forms of insulin API (recombinant human insulin, insulin glargine and insulin aspart), which we intend to develop into six different finished products (see "Business – Future Products – Future products for endocrine and metabolic diseases – Future products relating to the treatment of diabetes"). We therefore plan to expand our production capacity in relation to insulin glargine and insulin aspart in addition to our existing production plant for recombinant human insulin. The new insulin production plant at Yidu Base Area No. 3 will focus on the production of insulin glargine and insulin aspart and will have new production workshops, laboratories, offices and other ancillary facilities and will be equipped with advanced production equipments and machines which are being designed to meet GMP standards. We expect to complete the construction of this new insulin production plant in May 2017. Upon completion of our new insulin production plant, we expect our annual capacity for insulin glargine and insulin aspart will increase by 200 kilograms per year and 450 kilograms per year, respectively. The following table sets out details of our new insulin production plant.

Project item	Estimated capital expenditure	Description
Building construction	RMB28.9 million	Construction of new production workshops, laboratories, offices, purification system, air-conditioning system and other ancillary facilities
Production equipment/facilities	RMB70.7 million	Purchase of equipment for new production lines, laboratory equipment and monitoring facilities etc.
Other ancillary facilities	RMB19.8 million	Installation of pipes and meters, electricity circuit, sewage system and gaseous waste treatment system etc.
Working capital	RMB21.1 million	Contingency funds
Total	RMB140.5 million	

In addition to the existing production line for recombinant human insulin at Yidu Base Area No. 3, the new production plant for insulin glargine and insulin aspart will ensure that we have adequate production capacity as we expand our product portfolio by introducing our various pipeline insulin products to the PRC.

We currently expect that the new insulin production plant will require approximately RMB140.5 million which will be funded by the net proceeds from the Global Offering. As at Latest Practicable Date, we have not incurred capital expenditure for this new insulin production plant. We expect to incur the majority of the capital expenditure during 2016.

New Oral Formulation Production Plant at Yidu Base Area No. 3

In order to meet the increasing demand for our products and taking into account our expanded product portfolio going forward, we plan to increase our production capacity by constructing a new production plant at Yidu Base Area No. 3. The new production plant will have new production workshops, offices, warehouse and ancillary facilities, which are being designed to meet GMP standards and the standards required by the FDA and the EMA. We expect to complete the construction of the new plant by early 2018. The following table sets out details of our new production plant.

Project item	Estimated capital expenditure	Description
Building	RMB239.7 million	Construction of new production workshops (three floors), offices (two floors), warehouse (three floors), GMP purification system and other ancillary facilities
Equipment/facilities	RMB220.6 million	Purchase of equipment for new production lines, laboratory equipment and warehouse equipment etc.
Other construction fees	RMB9.7 million	Administration fees including fees for survey and design services, preparation for production, project supervision etc.
Working capital	RMB30 million	Contingency funds
Total	RMB500 million	

Upon completion of our new production plant, we expect our annual production capacity for tablets to increase by approximately 1,000 million tablets per year, our annual production for capsules to increase by approximately 500 million pieces per year and our annual production capacity for granules to increase by approximately 200 million packets per year.

As mentioned above, we currently only have two production lines at Yidu Base Area No. 1 that are used for the production of tablets, granules and capsules. These two production lines are for multiple purposes, which can be modified to produce tablets, granules or capsules. As we have a number of current and pipeline products that are either in capsule or tablet form, we believe that the new production plant will provide us with greater flexibility to meet future increases in the demand for our products as well as adapting to our increased size of our product portfolio.

We currently expect that the new plant will require capital expenditure of up to RMB500 million, which will be funded by the net proceeds from the Global Offering. As at Latest Practicable Date, we have not incurred capital expenditure for this new oral formation production plant. We expect to incur the capital expenditure for this new oral formation production plant from first quarter of 2016 until end of 2017.

Please see "Future Plans and Use of Proceeds".

Managing sustainable growth

As our product portfolio increases and our production capacity increases, it is vital to the sustainable development of our Company that we manage such increases in a careful and systematic manner. This will include managing the supply of raw materials and our production processes, managing the sales and marketing activities in relation to our new products and our current products and managing our employees.

- *Management of raw materials and production:* We have a number of new products in our pipeline ranging from products for the treatment of Hepatitis C, diabetes, digestive diseases and other diseases. To the extent that the raw materials in relation to the production of such pipeline products differ from the raw materials that we currently procure, we will carefully select new suppliers for such new raw materials. This will include assessing the quality of the raw materials procured during the research and development phase of our pipeline products as well as reviewing the background and reputation of such suppliers. In order to ensure that we do not rely on a single supplier of new raw materials, we intend to obtain raw materials from at least two or more suppliers. For new suppliers, our technical staff and quality assurance staff will review the quality of the raw materials procured subject to the approval of the head of the quality assurance department to ensure that it is of a standard that meets our production criteria.

  In relation to our production processes, as part of our research and development activities for our pipeline products, we will establish production manuals and protocols for our pipeline products to ensure that, when such products are ready for commercial production, the relevant production facilities for such products will comply with the necessary GMP standards. In addition, we will update our quality assurance protocols to ensure that it includes new products in our pipeline as they enter into the commercial production phase. Separately, we will conduct staff training in relation to our pipeline products so that they understand the new production protocols and procedures and the quality assurance procedures in relation to our new products.

  Our current expansion and upgrade plans mentioned above are also being implemented to ensure that we have sufficient production capacity as our product portfolio expands, without adversely affecting our capacity in relation to our current products. We will carefully monitor the demand for our pipeline products and our current products to ensure that the procurement of raw materials and production levels are in-line with our expected sales targets in order to mitigate the risk of over-stocking our raw materials or manufacturing excess products in our inventory.

- *Management of sales and marketing activities:* We will conduct additional staff training to educate our sales and marketing employees of our pipeline products. We also intend to develop specialised sales teams in relation to our key products and/or key therapeutic areas going forward to improve the effectiveness and efficiency of our sales and marketing activities. Each specialised sales team will be responsible for promoting our products within one of the key therapeutic areas. For example, we may develop a specialised sales team for our future insulin products where such team would only focus on this therapeutic area.

- *Management of employees:* As our general production capacity expands, we will increase the number of our production and quality assurance staff to ensure that we have adequate staff to operate our additional production facilities. Similarly, as our product portfolio expands, we intend to hire additional sales and marketing staff to ensure that we have sufficient resources to manage our sales and marketing activities. The increase to the number of our employees will be assessed carefully, taking into account the expected year of commercial production of our pipeline products as well as when our new production facilities become operational.

  As mentioned above, we also intend to develop specialised sales teams for our key products and/or key therapeutic areas. This may involve hiring specialists in certain therapeutic areas to further enhance our sales and marketing activities in relation to such key products and/or key therapeutic areas.

The Directors are of the view that based on current market conditions the Company will be able to source sufficient personnel with relevant skills and raw materials at market prices and at the required quality for its expansion plans on the basis that:

- The Company intends to develop and train its existing staff to ensure that they have adequate skills to manage and operate the new production plants and to hire additional employees with relevant experience and skills.

- In terms of price of raw materials, the market prices of the Company's raw materials have remained relatively stable during the Track Record Period, and the Company has not experienced any shortage of raw materials. As mentioned below, the Company has established relationships with at least two independent suppliers for different types of raw materials and will continue to maintain this policy going forward. We will continue to assess whether additional suppliers of raw materials are needed as our production capacity increases. This will help us to mitigate against the risk of a shortage of raw materials in the future. Therefore, the Directors do not expect the Company's expansion plans will materially affect the Company's ability to source raw materials in the future.

- In terms of the quality of raw materials, most of the Company's APIs are manufactured for self-use. Therefore, the Directors believe that the Company can control the quality of the APIs used in the production of its pharmaceutical products. In relation to other raw materials, the Company has established relationships with at least two independent suppliers to mitigate the risk of deterioration of the quality of raw materials supplied by a single supplier.

Based on the due diligence work performed by the Sole Sponsor and its discussions with the Company, the Sole Sponsor believes that the Company's plan to source sufficient personnel with relevant skills and raw materials at market prices and at the required quality for its expansion plans to be reasonable.

RAW MATERIALS PROCUREMENT

Our suppliers mainly include suppliers of raw materials for our pharmaceutical products (such as APIs) and packaging material. All of our raw materials are acquired within the PRC. During the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our purchases from our five largest suppliers were RMB56.9 million, RMB46.2 million, RMB35.0 million and RMB17.2 million, respectively, representing approximately 49.2%, 39.8%, 29.2% and 17.4% of our cost of sales for the respective periods.

Three of our top five largest suppliers during the Track Record Period are connected persons, being Parent Company (who supplies us with certain APIs), Shaoguan HEC Printing (who supplies us with certain packaging materials) and Yichang HEC Power Plant Co., Ltd. (宜昌東陽光火力發電有限公司) (who supplies us with electricity and steam in Yidu). Our largest supplier is Parent Company (our direct parent) and mainly supplies us with APIs for our manufacturing process for some of our products (such as azithromycin and roxithromycin). Our purchase from the parent Company accounted for 28.7%, 25.0%, 14.8% and 7.9% of our costs of sales for the three years ended 31 December 2012, 2013 and 2014 and for the six months ended on 30 June 2015.

Our purchase from the Shaoguan HEC Printing that were charged to cost of sales accounted for 6.6%, 6.8%, 6.8% and 7.9% of our total costs of sales for the three years ended 31 December 2012, 2013 and 2014 and for the six months ended on 30 June 2015. The increase of costs of sales in 2015 attributable to Shaoguan HEC Printing was due to the increased purchase of packaging materials following the change of name of the Company in May 2015 and hence requiring new packaging materials containing the Company's new name. Our purchase from Yichang HEC Power Plant Co., Ltd. that were charged to cost of sales accounted for 1.1%, 0.9%, 1.0% and 0.3% of our total costs of sales for the three years ended 31 December 2012, 2013 and 2014 and for the six months ended on 30 June 2015.

Shaoguan HEC Printing is a non-wholly owned subsidiary of Guangdong HEC Technology (which is an associate of Shenzhen HEC Industrial). Yichang HEC Power Plant Co., Ltd. is a subsidiary of Shenzhen HEC Industrial. Shenzhen HEC Industrial is one of our Controlling Shareholders and a connected person of the Company.

Our purchases from Parent Company, Shaoguan HEC Printing and Yichang HEC Power Plant Co., Ltd. are on arms' length terms. In particular, the prices for the supply of electricity and steam from Yichang HEC Power Plant Co., Ltd. are set by reference to the official written statement from the local Yidu Price Bureau (宜都市物價局). Our Directors believe that we are not reliant on the supply of raw materials from Parent Company or Shaoguan HEC Printing as the Company has established relationships with other third party suppliers that also supply the

raw materials that Parent Company and Shaoguan HEC Printing supply to us. In relation to the Parent Company, we have established relationships with two other independent suppliers for the supply of similar APIs to us. In relation to Shaoguan HEC Printing, we have also established relationship with two other independent suppliers for the supply of boxes and instruction booklets to us. In relation to Yichang HEC Power Plant Co., Ltd., we have historically purchased electricity and steam from them as their power plant is close to our production factories in Yidu and the unit prices are set by reference to the official statement of the local Yidu Price Bureau.

We have entered into various framework agreements in relation to the supply of raw materials from our connected persons going forward. Please see "Connected Transactions – Non-exempt Continuing Connected Transactions".

To the best knowledge of the Directors, other than Parent Company, Shaoguan HEC Printing and Yichang HEC Power Plant Co., Ltd., the rest of our top five suppliers during the Track Record Period are Independent Third Parties and none of our directors, their close associates or any Shareholder which, to the knowledge of the Directors that owns more than 5% of our Shares, are interested in our five largest suppliers during the Track Record Period. None of our suppliers are our competitors or our customers.

We do not enter into long-term supply contracts with our suppliers, and raw materials and other supplies are provided on an individual basis on an "per order" basis. We minimise supplier risk by having at least two suppliers for each type of raw materials that are required in our manufacturing process. This approach allows us to mitigate any reliance risk on any single supplier, and at the same time allows us to compare the quality, price and efficiency of delivery of raw materials and supplies by our suppliers. Our procurement department regularly reviews the quality of each supplier's raw materials and supplies, reviews the industry ranking of our suppliers that are available in the public domain and maintains a catalogue of our preferred suppliers based on experience with such suppliers and the quality of their raw materials and supplies. As the quality of our raw materials and supplies are critical to the manufacturing and production of our pharmaceutical products, we take a careful and selective approach in developing relationships with reputable suppliers for the relevant raw materials and supplies.

As we do not normally enter into long-term supply contracts, the purchase price of our raw materials and supplies are determined at prevailing market prices. We believe that the lack of long-term supply contracts provides us with flexibility in choosing the right supplier that satisfies our quality standards and also allows us to re-negotiate prices when there are changes in the market price of our raw materials. During the Track Record Period, the unit costs of our raw materials remained generally stable.

We minimise the risk of over-stocking on raw materials by careful planning and management of our production and procurement process with a view of acquiring raw materials on a timely basis and only of a quantity that is required for our production processes. In general, our production department will first determine the quantity of raw materials that are

required in order to meet the production targets within any given period. Once this is determined, we will review our raw material inventory levels to determine whether additional orders of raw materials would be required to meet such production targets. If current raw materials inventory levels are not sufficient, this will be reported to the general manager who will then approve the acquisition of additional raw materials. Once approved by the general manager, our procurement team will complete the purchase of the relevant raw materials and supplies.

As at 30 June 2015, we have established relationships with 485 suppliers for our raw materials and equipment. Our Directors believe that we are not reliant on any single supplier.

During the Track Record Period, we have not experienced any material product recall in respect of the raw materials and supplies provided by our suppliers. In general, we have been granted a credit term of around 30-60 days by our raw material suppliers.

QUALITY ASSURANCE

In order to ensure the quality of our product, we have established and implemented an effective quality assurance system into our production processes. Our quality assurance system is divided into four main elements: (i) responsibility management; (ii) resources management; (iii) product management; and (iv) testing, analysis and improvement. Responsibility management refers to reviewing the documentary aspects of the production processes to ensure that the correct procedures in relation to production are strictly adhered to. It also involves designing a system to ensure that quality control reviews and testing are involved during the production processes. Resources management refers to reviewing the sources and raw materials of our production processes. This would include reviewing and assessing the raw materials that we receive from our suppliers and assessing the performance of our suppliers against their competitors. Product management involves the quality control aspects during the actual production of our products.

Testing, analysis and improvement refers to our internal testing and analysis of our products. In this connection, we have established a team dedicated to testing, analysing and improving our production processes to ensure that our production processes produces products of a consistently high quality. This department has different teams to review various aspects of our production process including: (i) reviewing and checking whether micro-organisms are produced in our production processes; and (ii) reviewing consistency in our final products through sample testing. To the extent that we discover any issue in our production processes, this would be reported and the relevant production process would be reviewed.

The objective of our quality assurance system is to improve our production processes continuously. We believe that our stringent quality assurance system ensures that our production processes produces pharmaceutical products of a high quality and on a consistent basis.

We have received all necessary GMP certifications for all our production facilities for our current products. We have also received certification from certain overseas regulatory authorities. For example, we also received Certificates of Suitability from the European Directorate for the Quality of Medicine & Healthcare for the production of some of our products.

Inventory Management

Our inventory largely consists of finished products and certain production materials such as APIs, PVCs, other raw materials and packaging materials. We have personnel responsible for reviewing and managing our finished products inventory and our production materials inventory. In general, we manage our inventory by reference to our production target for any given period. Our production targets of each product are determined after discussions with our sales and marketing department to determine the amount of products that are required to meet the demand for those products on a monthly or quarterly basis. In this way, we are able to manage our inventory levels to ensure that we do not over-stock on finished products or production materials. Our overall objective in our inventory management processes is to minimise the amount of inventory stored by us.

We write down our inventories on a case-by-case basis in accordance with IFRS. For the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our writedown of our inventories were zero (0), RMB61,000, RMB74,000 and zero (0), respectively.

RESEARCH AND DEVELOPMENT

Overview

We are focused on the production, manufacture and sale of our products. In general, our research and development activities relate to our existing product portfolio and our upcoming products in our product pipeline. All of our current products and products in our pipeline are developed in-house other than Kewei (which we licensed the relevant patents from Oseltamivir Phosphate Licensor) and yimitasvir phosphate (which we acquired from Sunshine Lake Pharma). This is because other than these two products, our products are generally generic drugs that do not require intensive research and development activities in order to produce. We also conduct research and development in relation to our production processes with a view to improving the capacity and efficiency of our production processes, reduce unit costs, decrease production time and to improve the interchangeability of production lines for different types of our products. As mentioned above, we conduct testing and reviewing of our production processes as part of our quality assurance management and also with the objective to improving our production processes in the long term. As at 30 June 2015, all of our 38 technical staff and 55 of our quality control staff are responsible for carrying out our research and development activities. Of these 93 staff, 49% have a bachelor's degree and 9% have a master's degree. The educational and professional backgrounds of these employees relate to areas including pharmacology, organic chemistry and molecular biology. The leading members of the team also have experience in research and development activities in addition to their academic qualifications. Our research and development activities are headed by the Technical Department. The head of our Technical Department has a master's degree in pharmacology and over seven years' experience in research and development, registration and management of pharmaceutical products.

During the Track Record Period, we provided certain research and development services to Dongguan HEC Research, a related party. Such research and development services included providing our facilities and materials for test trials of products under development,

manufacturing products under development in small to medium batches to facilitate clinical trials and other tests, and testing manufacturing methods and techniques. To a lesser extent, we also received similar services from our related parties to assist with our research and development activities during the Track Record Period. We do not expect to continue to provide or receive such services to or from our related parties after Listing.

For the three years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2015, our research and development expenses were RMB63.4 million, RMB81.3 million, RMB73.6 million and RMB21.2 million, respectively. Our relatively low levels of research and development costs are attributable to our research and development activities being mostly in relation to our current products and products in our product pipeline. This is because we have various channels to expand our product portfolio, including through acquisitions from HEC Research Group via the Strategic Cooperation Agreement and acquisitions of new products or licences of products from third parties.

In the Directors' view, the development of a new product is a time-consuming process and is inherently uncertain. In particular, we believe that the length of the approval process for new pharmaceutical products in the PRC is increasing. In addition, clinical trials are inherently a lengthy and expensive process and there can be no assurance that a proposed product will meet the standards required to pass the necessary clinical trials. Therefore, our strategy in relation to this is to minimise our research and development risk through: (i) the Strategic Cooperation Agreement, which allows us to acquire the rights to new products from HEC Research Group going forward; and (ii) through strategic acquisitions of new products or licences of products from third parties. See "Business – Our Strategies and Future Plans – Expand our product portfolio in strategically selected therapeutic areas".

New Measures by the CFDA

Since July 2015, the CFDA has introduced certain measures to deal with its current backlog of drug applications. On 22 July 2015, the CFDA issued Notice No. 117 (CFDA notice in relation to self-review of clinical trials data) (國家食品藥品監督管理總局關於開展藥物臨床試驗數據自查核查工作的公告), which required the current applicants in respect of the existing 1,622 drug manufacturing or drug import applications to the CFDA to re-review the clinical trials data in respect of each such application. On 31 July 2015, the CFDA issued Notice No. 140 (Consultation on policy statement in relation to swiftly resolving the problem of congested drug applications) (關於徵求加快解決藥品註冊申請積壓問題的若干政策意見), which stated that it will apply the most stringent standard to review and approve the current drug applications. In addition, on 11 November 2015, the CFDA issued Notice No. 230 (Certain policies in relation to review and approval of drug applications) (關於藥品註冊審評審批若干政策的公告), which set out ten key points to be applied in the process of reviewing and approving the current drug applications, with an emphasis on the accuracy of clinical trials data, the effectiveness of the drug and the consistency between the original innovative version and the generic version of a product as demonstrated in comparability studies. The combination of Notice No. 117, Notice No. 140 and Notice No. 230 means that pharmaceutical companies will need to conduct self-review of their current drug applications to see if it meets the

stringent standards of the CFDA, failing which, the CFDA would expect the relevant applicant to withdraw its drug application and to resubmit the relevant drug application when the requirements are met. By raising the standards required in respect of drug applications, this may delay our applications in relation to our future products or, in the worst case scenario, require us to withdraw our applications.

Taking into account the above change in policy and regulatory affairs and our self-review performed, we have since withdrawn seven of our drug applications. Such seven applications related to two different formulations of a non-insulin drug to treat diabetes, an antibiotic product, a cardiovascular drug, an anti-fungal product, a digestive disease drug and an immuno-suppressant drug. We conducted self-review on all of our drug applications against the more stringent requirements of the CFDA's Notices No. 117, No. 140 and No. 230 and concluded that the said seven applications (which were originally prepared in accordance with the standards at the time of application) did not meet the technical requirements under the CFDA's new standards. Other than the application relating to the antibiotic product and the immuno-suppressant product (which we do not consider to be within our key therapeutic areas going forward), we intend to re-submit the other five applications during the second half of 2016. Separately, we have been notified by the CFDA that three of our drug applications will be returned to us due to insufficient data provided with the original drug applications. These three drug applications related to one drug for the respiratory system and two drugs for the cardiovascular system. We intend to resubmit these applications once we have obtained the additional data that are required by the CFDA relating to these drugs.

In summary, ten of our drug applications have either been voluntarily withdrawn or returned, of which seven were withdrawn after self-review and three were returned by the CFDA. Of these ten withdrawn or returned applications, we will resubmit five applications during the second half of 2016 and resubmit three other applications once we have obtained the additional data as required by the CFDA. We do not intend to resubmit two of the drug applications. Of these ten drug applications, only one of these related to our 18 key pipeline products (being lansoprazole for injection). The remaining nine drug applications that were either voluntarily withdrawn or returned did not relate to our 18 key pipeline products.

We have incorporated the new technical requirements of the CFDA in our research and development criteria for new drug applications (including the requirements provided in Notice No. 117 issued by the CFDA in relation to self-review of clinical trials data and the key-point checklist set out in Notice No. 230, including conducting comparability studies to demonstrate consistency between the original innovative version and the generic version of a product and to ensure the data integrity in accordance with the more stringent standards set out in Notice No. 230) and do not consider that the new measures of the CFDA will have a materially adverse effect on our other existing drug applications. In addition, we understand from the CFDA that the purpose of the new measures was to reduce the backlog of drug applications, and to improve the efficiency and quality of the CFDA's review of drug applications.

Furthermore, the CFDA also issued three consultation papers (Notice No. 221 (Consultation paper on regulations in relation to registration of bioequivalence studies for generic drugs) (關於徵求化學仿製藥生物等效性試驗備案管理規定(徵求意見稿)), Notice No.

227 (Consultation paper on prioritising the review and approval of the congested drug applications) (關於解決藥品註冊申請積壓實行優先審評審批的意見(徵求意見稿)) and Notice No. 231 (Consultation paper on evaluation of the quality and effectiveness of generic drugs) (關於開展仿製藥質量和療效一致性評價的意見(徵求意見稿))) in relation to bioequivalence and comparability studies of generic drugs. In particular, Notice No. 227 sets forth the criteria and procedure for fast-track review process, including resubmitted generic drug applications with comparability studies and innovative drugs. Please see "Regulatory Overview – PRC Law and Regulations in relation to the Registration of Pharmaceutical Products – New Measures by the CFDA" for more details.

On our key pipeline products:

- the new notices described above do not apply to the insulin products in our pipeline as they are biological products as opposed to generic chemical products;

- in relation to yimitasvir phosphate, our pipeline anti-Hepatitis C drug, we expect Notice No. 227 to have a positive impact on its application process as this is a new innovative drug;

- in relation to our other key pipeline products disclosed in "Business – Future Products", we have already conducted comparability studies for each of these key pipeline products and therefore do not expect the three new notices in relation to compatibility studies to materially affect these drug applications. In relation to the requirements relating to bioequivalence studies for certain generic drugs which are oral solid formulations, only three of the applications relating to our key pipeline generic products are required to conduct such bioequivalence studies which are subject to the more stringent requirements provided in the new notices. We have since updated our research and drug application policies to ensure that the bioequivalence studies to be conducted for these three drug applications will meet the requirements under the new notices issued by the CFDA.

Under Notice No. 231, we will be required to complete comparability studies for our existing products which are listed in the National List of Essential Drugs by the end of 2018. Since we have the experience and capacity to conduct such comparability studies, we do not expect this requirement to materially affect our existing products. In our experience, comparability studies take around 12 months to complete.

Based on the due diligence done by the Sole Sponsor and discussion with the Company, the Sole Sponsor is satisfied that the Company understands the CFDA's new requirements and has included in its procedures for drug applications to meet the technical requirements of such new measures to ensure that there will be no material adverse impact on the Company's key pipeline products.

Strategic Cooperation Agreement with Shenzhen HEC Industrial

We have entered into the Strategic Cooperation Agreement with Shenzhen HEC Industrial. Under the terms of the Strategic Cooperation Agreement:

- We have a pre-emptive right to acquire the right to manufacture and sell new pharmaceutical products being developed by HEC Research Group (including, where applicable, the transfer of the related intellectual property rights and technology relating to such products).

- HEC Research Group may only sell the rights to a new product under development to another third party after the Company has notified Shenzhen HEC Industrial that the Company does not wish to acquire the rights to such new products.

- If the Company wishes to exercise its right to acquire a new product under development, it will enter into a new agreement with the relevant member of HEC Research Group to acquire such products. The consideration payable by the Company in relation to a new product will be at market value and subject to commercial negotiations between the parties. Under the terms of the Strategic Cooperation Agreement, the parties may choose to engage a third party valuer to determine the market value for the relevant new product.

- The term of the Strategic Cooperation Agreement is for an initial period of five years from the date of Listing and may be extended, at our option, for a further period of five years. We consider this arrangement to be appropriate as the initial term of five years under the Strategic Cooperation Agreement allows us to assess the appropriateness of our strategies relating to research and development and the acquisition of new products. As we have the option to extend the term of the Strategic Cooperation Agreement for a further five years, we can choose to retain the above pre-emptive right for the next ten years after Listing.

- All rights and obligations of the parties to the Strategic Cooperation Agreement will be subject to the requirements of the Listing Rules.

As any acquisition made by the Company pursuant to the Strategic Cooperation Agreement would constitute a connected transaction under the Listing Rules, persons with material interests cannot vote on the resolution approving such acquisition. Moreover, for the purpose of good corporate governance, only independent non-executive directors of the Company will be entitled to vote on any board resolution to decide whether or not to exercise the pre-emptive right to acquire any new product pursuant to the Strategic Cooperation Agreement. To ensure that the consideration payable by the Company is fair and reasonable and in the best interests of its Shareholders, the Company will engage a third party valuer to determine the market price for a product. We will also disclose in our annual report any decision (with basis) to or not to exercise any pre-emptive right to acquire any new product under the Strategic Cooperation Agreement in the relevant year.

By reference to the number of patents filed in the PRC, HEC Research Group and its subsidiaries are one of the leading pharmaceutical research institutions in the PRC, with over 1,200 research fellows, including four experts selected to the PRC Government's "National 1,000 People Plan" (國家"千人計劃")[5] and one officer selected to the "Young Leadership Programme" (青年領軍人才). HEC Research Group also has a number of research collaborations with various research partners overseas, as well as in the PRC.

The pharmaceutical research and development segment of the HEC group was established in 2005, and was established with considerations to the research standards of the FDA and in Europe in relation to drugs. It currently has three major research divisions that focus on innovative new drugs, biologics and generic drugs over a wide range of therapeutic areas, including infectious diseases, oncology, diseases relating to the central nervous system, metabolic diseases, diseases relating to the immune system and cardiovascular diseases, allowing it to independently conduct research and development in innovative drugs, biologics and generic drugs. HEC Research Group is controlled by Shenzhen HEC Industrial and does not form part of our Group.

As mentioned above, HEC Research Group has over 1,200 research fellows, including 19 overseas experts. HEC Research Group also has 64 research fellows holding doctoral degrees and with at least 50% of the research fellows holding masters degree or above. Sunshine Lake Pharma (a member of HEC Research Group) has also been recognised by MOHRSS and National Post-Doctorate Committee (全國博士後管委會) as a Post-Doctoral Science and Research Station (博士後科研工作站). The objective of HEC Research Group is to develop into a world-class medical research institution.

The medical research academy within HEC Research Group has 12 research projects selected as "Significant New Drugs Development" (新藥創製重大專項) in the PRC Government's 11th and 12th Five-Year Plans and its medical research academy has been awarded by the Guangdong Provincial Government as an "Guangdong Introduction of Innovative Technology and Research Team" (廣東引進科研創新團隊) for four years.

HEC Research Group is currently developing a range of innovative drugs (which it holds the relevant intellectual property rights to) across the above six therapeutic areas with 1 drug in phases II clinical trial and three drugs in phase I clinical trials, and three further drugs pending for clinical trials. A summary of four of their major drugs in development is set out below:

Morphothiadine

Morphothiadine is currently in Phases II clinical trials and is an anti-Hepatitis B virus drug. It received the "Significant New Drugs Development" (新藥創製重大專項) under the PRC Government's 11th Five-year Plan. Morphothiadine uses a new mechanism by binding to

[5] The "Overseas Experts Introduction Plan", commonly known as the "National 1,000 People Plan" is focused on the strategic development of the PRC for the purpose of introducing overseas experts and professionals to the PRC.

core protein to disturb the structure and function of the Hepatitis B virus' nucleocapsid. This allows for effective inhibition of the replication of the Hepatitis B virus by disturbing the structure of the virus and the DNA replication process of the virus. Morphothiadine has been described as a "first in class" new anti-Hepatitis B drug and is anticipated to be a National Class 1.1 drug for the treatment of the Hepatitis B virus.

Yimitasvir phosphate

Yimitasvir phosphate is a drug used for the treatment of Hepatitis C infections. It is the first direct anti-viral agent drug being wholly developed by a PRC company that targets the Hepatitis C virus' NS5A protein and received "Significant New Drugs Development" (新藥創製重大專項) funding in the PRC Government's 12th Five Year Plan. Yimitasvir phosphate specifically targets the multi-function NS5A protein, which is critical to the replication of the Hepatitis C virus, which would effectively inhibit the replication of the virus. As at the Latest Practicable Date, it has completed Phase I clinical trials and is preparing for Phases II and III clinical trials.

On 22 July 2015, we entered into an agreement with Sunshine Lake Pharma (a member of HEC Research Group) in relation to yimitasvir phosphate and follow-up direct anti-viral agent compounds. Please see "Business – Future Products – Future anti-viral products – Future products relating to the treatment against Hepatitis C viral infections".

Ningetinib

Ningetinib is a small molecule inhibitor targeting on kinases including c-Met and VEGFR2. In many tumours, c-Met has been found to be over-active and when VEGF signals are blocked, restricts the flow of oxygen to the microenvironment around a tumour. Thus, ningetinib is intended to inhibit tumour growth, tumour metastasis and the signal pathways of c-Met and VEGF with a view to treating various cancers. Ningetinib also received "Significant New Drugs Development" (新藥創製重大專項) funding in the PRC's 12th Five Year Plan. It is currently conducting Phase I clinical trials.

Larotinib

Larotinib is jointly developed by Yidu HEC Research and The South China Center for Innovative Pharmaceuticals (華南新藥創製中心) as a National Class 1.1 new drug. It is a small molecule inhibitor (pan-ErbB). As ErbB proteins tends to be hyper-active in pancreatic cancer, Larotinib is anticipated to inhibit ErbB proteins and to effectively treat pancreatic cancer. In January 2015, Larotinib has been approved in one batch to conduct Phases I, II and III clinical trials, which is expected to shorten the approval period for this drug. It is currently conducting Phase I clinical trials.

Going forward, we believe that our strategic relationship with HEC Research Group will allow us to expand our product portfolio in a cost-effective and low-risk manner. This will contribute to our sustained long-term growth, profitability and development.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date:

(a) in the PRC, we have been granted 11 patents and have 11 pending patent applications. We also have 58 trademarks registered in the PRC;

(b) outside the PRC, we have been granted 1 patent and have 4 pending patent applications;

(c) we have 2 registered trademark registered in Hong Kong and 6 trademarks pending registration in Hong Kong;

(d) we have 1 registered trademark registered outside the PRC and Hong Kong; and

(e) we have 1 key domain name registered in the PRC and 2 domain names registered outside the PRC.

Please see Appendix VI "Statutory and General Information" for further information in relation to our material intellectual property rights.

COMPETITION

As noted in "Industry Overview", the PRC pharmaceutical industry is highly competitive and is highly fragmented. According to PICO, in 2013, the top four, top 15, top 25 and top 100 pharmaceutical companies in the PRC accounted for 10.2%, 22.7%, 28.4% and 45.1% of the PRC pharmaceutical market, respectively, highlighting the fragmented and competitive nature of this industry in the PRC.

Selected information in relation to the ranking and market share of our key products in their respective product market are set out below. Please see the "Industry Overview" section of this prospectus for further information.

Product Name	Ranking and Market Share by Product Market[1]
Kewei (oseltamivir phosphate) (granules and capsules)	In respect of the sale of oseltamivir phosphate products in the PRC: 2014: No. 1 (84.1% of the oseltamivir phosphate product market) 2013: No. 1 (71.9% of the oseltamivir phosphate product market) 2012: No. 2 (17.9% of the oseltamivir phosphate product market) *Note:* According to PICO, in 2012, 2013 and 2014, oseltamivir phosphate products accounted for 2.8%, 5.4% and 9.8% of the PRC anti-influenza virus product market, respectively.
Ertongshu (benzbromarone tablets)	In respect of the sale of benzbromarone products in the PRC: 2014: No. 3 (10.4% of the benzbromarone product market) 2013: No. 3 (10.5% of the benzbromarone product market) 2012: No. 3 (9.8% of the benzbromarone product market) *Note:* According to PICO, in 2012, 2013 and 2014, benzbromarone products accounted for 62.6%, 62.8% and 60.6% of the PRC market for the treatment of hyperuricemia, respectively.
Oumeining (telmisartan tablets)	In respect of the sale of telmisartan products in the PRC: 2014: No. 4 (7.0% of the telmisartan product market) 2013: No. 4 (6.6% of the telmisartan product market) 2012: No. 3 (6.6% of the telmisartan product market) *Note:* According to PICO, in 2012, 2013 and 2014, telmisartan products accounted for 4.2%, 3.7% and 3.2% of the PRC market for treatment of hypertension, respectively.

1 Based on retail prices and sales volume

Product Name	Ranking and Market Share by Product Market[1]
Xinhaining (amlodipine besylate tablets)	In respect of the sale of amlodipine besylate products in the PRC: 2014: No. 6 (2.3% of the amlodipine besylate product market) 2013: No. 5 (2.3% of the amlodipine besylate product market) 2012: No. 5 (2.5% of the amlodipine besylate product market)

Note: According to PICO, in 2012, 2013 and 2014, amlodipine besylate products accounted for 6.4%, 7.3% and 7.2% of the PRC market for treatment of hypertension, respectively.

We face competition from other pharmaceutical companies engaged in the research, production, marketing or sales of pharmaceutical products similar to our products. In relation to our business, our products compete with other products that treat similar conditions or illnesses on the basis of effectiveness in treatment of the relevant condition or illness, price, brand recognition and the preference of medical professionals and hospitals. Discussions regarding our competitors in respect of our key products are set out in "Business – Our Products". Please see also the sectioned titled "Industry Overview" for a summary of our main competitors of some of our key products.

Given the competitive nature of the PRC pharmaceutical market and the historical price control regime over certain of our products, we believe that we primarily compete on the basis of brand recognition, sales network, educational promotion activities, quality assurance and reducing production costs. In our view, we need to maintain our competitiveness in the PRC pharmaceutical manufacturing industry by continuing to develop our manufacturing capabilities, diversifying our product portfolio, maintaining and improving the quality standards of our products, maintaining and obtaining all necessary regulatory approvals in respect of each part of our business and develop our educational promotion activities to raise awareness of our products to medical professionals and hospitals.

While the PRC pharmaceutical market is fragmented, we believe there are material barriers to entry for new pharmaceutical companies. For example, significant capital expenditure is required in order to construct and maintain production and manufacturing facilities that satisfies the necessary GMP requirements and the relevant environmental, health and safety regulations. In addition, the development of new drugs takes significant time and resources (including obtaining the necessary manufacturing approvals), which means it is unlikely to lead to a significant and sudden increase in the number of pharmaceutical manufacturers in the PRC.

HEALTH AND OCCUPATIONAL SAFETY

The PRC government imposes a number of regulatory requirements on pharmaceutical companies in relation to health and occupational safety. Please see "Regulatory Overview – Labour Protection and Social Insurance" for a discussion of these requirements. We are committed to complying with PRC regulatory requirements, preventing and reducing hazards and risks associated with our operation and ensuring the health and safety of our employees and surrounding communities.

We have established a Safety Department to conduct annual inspections of our operating facilities and processes and set out an annual action plan each year to ensure that our pharmaceutical manufacturing operations are in compliance with the applicable laws and regulations. We have internal policies and procedures in relation to warehouse safety management, hazardous source management and hazardous chemicals management, to provide comprehensive guidelines on occupational health and safety. We conduct regular training sessions for employees on accident prevention and management. We also provide medical checks for our employees annually, and we require our production staff to attend training sessions on the required safety standards.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material accidents in the course of our operations and our Directors were not aware of any claims for personal or property damages in connection with health and occupational safety.

ENVIRONMENTAL MATTERS

Our operations and facilities are subject to environmental laws and national, provincial and local regulations in the PRC. The relevant laws and regulations applicable to pharmaceutical production in the PRC include provisions governing air emissions, water discharge, prevention and treatment of sewage and exhaust fumes and the management and disposal of hazardous substances and waste. Manufacturers are also required to conduct an environmental impact assessment before engaging in new construction projects to ensure that the production processes meet the required environmental standards to treat wastes before the wastes are discharged. For further information on the environmental laws, rules and regulations governing our operations, please refer to "Regulatory Overview – Environment Protection".

The main wastes generated during our production process include solid waste, liquid waste, gaseous waste and noise. We have established an environmental, safety and quality management system in order to comply with applicable approvals, laws and regulations. We conduct annual inspections of our production facilities and review our environmental protection systems. For hazardous waste, we generally contract with qualified sanitation entities for special treatment. We seek to reduce, treat and recycle the waste generated in our production process and improve our production technique to reduce the pollutants we discharge to the environment.

We have established an Environmental Protection Department, which is responsible for internal assessment of the Company's environmental impact, implementation of environmental protection measures, conducting environmental impact assessment of construction projects, daily pollution monitoring and maintenance of environmental protection facilities. Furthermore, we have internal policies in place to treat and dispose of waste generated and to respond to environmental emergency incidents in accordance with national and local environmental regulatory requirements. We are also constantly seeking to raise our ability to operate in an environmentally friendly manner, including minimising the production of solid, liquid and gaseous wastes and minimising noise pollution. We have formed a review panel and a working group for "green production" to provide training to our production staff. We have also engaged a green technology firm to produce an assessment report on green production of the Company which provided us with guidelines and action plans for improvement in green production.

Our facilities in China are subject to regular inspection by environmental regulatory authorities. If these facilities are found not to be in compliance with the applicable environmental standards, we may be subject to penalties, which may range from fines to suspension of production. During the Track Record Period, we have not been subject to any penalty or claim by any governmental or regulatory authorities in the PRC for any material breach of or non-compliance with any environmental laws or regulations. We have also been maintaining good relationships with the communities surrounding our manufacturing facilities.

For the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our expenses relating to the treatment of liquid wastes and depreciation expenses for equipment used to treat liquid wastes were approximately RMB1.1 million, RMB1.2 million, RMB1.2 million and RMB0.6 million, respectively. These costs do not include historical capital expenditure on property, plant and equipment that may be attributable to environmental compliance. We do not have any specific expenditure plan with respect to environmental matters in the near future. However, we will devote operating and financial resources to such compliance whenever we are required by PRC laws and regulations to do so in the future.

In addition, as the PRC environmental regime continues to evolve and the supervision and enforcement authorities may adopt more stringent standards of environmental protection, we may be required to undertake significant expenditures in order to comply with environmental laws and regulations that may be adopted or imposed in the future.

Our PRC legal adviser has confirmed that we are in compliance with relevant national or local environmental laws and regulations in the PRC in all material aspects and have obtained all material permits, approvals and certifications required under PRC law in relation to our manufacturing facilities, including the discharge of solid waste and waste water.

INSURANCE

In line with what we consider to be customary for PRC pharmaceutical manufacturing companies, we maintain property insurance covering our production facilities and equipment, insurance relating to public liability, insurance relating to transport of goods and insurance

covering our construction projects (including accidents), which we believe are sufficient. We also maintain social security insurance in accordance with the relevant laws and regulations in the PRC. We do not carry any product liability insurance or business interruption insurance, which are not mandatory under PRC law as confirmed by our PRC legal adviser.

Our Directors are of the view that our current insurance coverage is in line with industry practice and is adequate for our operations.

Please see "Business – Legal and Compliance – Non-compliance Incident in relation to Social Security Insurance and Housing Provident Funds Contributions".

PROPERTIES

Our manufacturing facilities are located in Yidu City, Hubei province, the PRC, where we hold the land use rights to six parcels of land, with a total site area of approximately 305,512.7 square metres. Our existing production facilities, warehouse and administrative offices are located at these sites. We also hold land use rights to two parcels of land in Baotawan Village, Yidu with a site area of approximately 239,954.6 square metres, which is vacant as at the Latest Practicable Date.

In addition, we own seven properties in Guizhou, Shandong, Shanxi, Hunan, Anhui, Heilongjiang province and Beijing, with an aggregate of approximately 1,701.4 square metres of floor area, which are used for our regional sales offices. As of the Latest Practicable Date, we have obtained building ownership certificates for all these properties. We have also entered into sales contracts for three units in Hebei, Liaoning and Jilin province respectively, with an aggregate of approximately 786.5 square metres of floor area, which are currently occupied by the Group as sales offices. We are in the process of obtaining the building ownership certificates for these three units.

Certain information regarding these three properties are set out below.

Room 114, Unit 1, Block 30, Fengqing Road North, Jiutai Road East, Kuancheng District, Changchun, Jilin Province (吉林省長春市寬城區九台路以東、慶豐路以北第30幢1單元114號房) ("Jilin Property")

In relation to the Jilin Property, we entered into the relevant sales contract with the relevant property developer for this development in September 2012. After discussions with the relevant property developer, we understand that the property developer only started applying for the necessary building ownership certificates after the completion of the entire development and the application for building ownership certificates for the entire development is still ongoing. Whilst we are waiting for the relevant building ownership certificate from the relevant property developer, we have started to use the Jilin Property as one of our sales offices from April 2013.

As at 30 June 2015, the carrying amount of the Jilin Property was approximately RMB3.5 million.

Room 1902, Unit 2, No. 2 Jinlin Building, No. 106-1 Yuhuadong Road, Yuhua District, Shijiazhuang, Hebei Province (河北省石家莊市裕華區裕華東路106-1號金領大廈2號酒店式公寓樓02單元1902房) ("Hebei Property")

In relation to the Hebei Property, we entered into the relevant sales contract with the relevant property developer for this development in April 2010. After discussions with the relevant property developer, we understand that the property developer decided to apply for the necessary building ownership certificates in respect of the residential portion of the development first, followed by the service apartment portion and then the commercial portion of the development. We understand from the relevant property developer that it is in the process of applying for building ownership certificates for the remaining commercial portion of the development. Whilst we are waiting for the relevant building ownership certificate from the relevant property developer, we have started to use the Hebei Property as one of our sales offices from October 2010.

As at 30 June 2015, the carrying amount of the Hebei Property was approximately RMB1.2 million.

Floor 1-2, Unit 15, No. 122 Jinxingnan Street, Tiexi District, Shenyang, Liaoning Province (遼寧省瀋陽市鐵西區景星南街122號15門1-2層) ("Liaoning Property")

In relation to the Liaoning Property, we entered into the relevant sales contract with the relevant property developer for this development in October 2010. After discussions with the relevant property developer, we understand that certain purchasers of this development disputed the actual size of the individual properties sold by the property developer. Therefore, the relevant government authority in Shenyang undertook a supplementary survey of the entire development. We understand from the property developer that this supplemental survey process has recently completed and the relevant governmental authority will start processing the application for building ownership certificates in respect of this development. Whilst we are waiting for the relevant building ownership certificate from the relevant property developer, we have started to use the Liaoning Property as one of our sales offices from August 2013.

As at 30 June 2015, the carrying amount of the Liaoning Property was approximately RMB5.5 million.

As advised by our PRC legal adviser, the risk of us being imposed any penalties or liabilities as a result of a lack of building ownership certificate in respect of each of the Jilin Property, Hebei Property and Liaoning Property is remote. In addition, based on the terms of the relevant sales contract, the relevant property developer is required to deliver the relevant building ownership certificate to us. However, as we currently do not have a building ownership certificate for these properties, we will not be able to sell or mortgage these three properties until we received the relevant building ownership certificate from the relevant property developer.

The Directors confirm that, in respect of each of the Jilin Property, Hebei Property and Liaoning Property:

- none of these properties are material to the business, operation or financial condition of the Group as the combined carrying amount of these properties is less than 1% of the total assets of the Group as at 30 June 2015 and the Group can lease other premises in the same city to establish replacement sales offices if we are no longer permitted to use the above properties;

- all of these properties are new property developments in the PRC and it is not unusual for a property developer to take a significant time to obtain the relevant building ownership certificates for such new developments;

- they are not aware of any issues regarding the safety condition of each of these properties and based on discussions with the relevant property developer, it was not alleged that the delay by the property developers to obtain the relevant building ownership certificates was due to safety concerns; and

- the Company will continue to discuss and work with the relevant property developers to obtain the building ownership certificates for these properties and, based on our discussions with the relevant property developers, we estimate that the building ownership certificates for these three properties should be issued by the relevant governmental authorities by late 2015/early 2016.

Other information relating to our properties

As at the Latest Practicable Date, we leased certain offices in one of our buildings in Yidu to Yidu HEC Industrial Development Co., Ltd. (宜都東陽光實業發展有限公司), a connected person of the Company, for office use. Please see "Connected Transactions – Exempt Continuing Connected Transactions – De minimis transactions".

According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempt from compliance with the requirements of Section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance which require a valuation report with respect to all the Group's interests in land or buildings, for the reason that, as at 30 June 2015, none of the properties held or leased by us has a carrying amount of 15% or more of our consolidated total assets. Accordingly, we are not required by Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests.

Head Office

Our headquarters is located at No. 38 Binjiang Road, Yidu, Hubei Province, China.

EMPLOYEES

As at 30 June 2015, we had 857 full-time employees. The table below sets out a breakdown of our employees by function as at 30 June 2015:

	Number of employees
Management	52
Production staff	374
Quality control staff	140
Technical staff	38
Administrative staff	30
Sales and marketing staff	179
Other staff	44
Total:	857

Most of our staff are located in Yidu. A small number of senior management staff are located in Dongguan. Some of our sales and marketing staff are located in various sales offices in the PRC.

We provide orientation training for all new employees to ensure that they are able to understand our internal policies, employee manual and corporate culture in an efficient manner. The orientation training also provides them with the necessary skills and knowledge to perform their required duties. We also have a continuing education programme to provide training for all of our employees. The aims of such continuing education programme are to improve the employees' knowledge and skills in a number of important areas of our operations, including key requirements under the GMP certification system, laws and regulations applicable to our operation and quality control and workplace safety. The training is delivered by our employees, as well as by external trainers. We evaluate our training results every year and adjust training programmes accordingly for the next training term. Moreover, all departments in the Company are required to keep their own training records and prepare their annual training plan each year.

As required by applicable PRC laws and regulations, we are required to register with the respective local authorities in respect of social security insurance and had also completed such registrations for our employees. We did not make social security insurance and housing provident fund contributions for certain employees of our Company as required under PRC laws and regulations during the Track Record Period. Please see "Business – Legal and Compliance – Non-Compliance Incident in relation to Social Security Insurance and Housing Provident Fund Contribution" for more details. Other than the matters as described in that sub-section of the prospectus, we made all other contributions during the Track Record Period in compliance with the applicable laws and regulations.

Our Directors and PRC legal adviser confirmed that we have complied with applicable employment laws and regulations in all material respects and there have been no outstanding material labour related legal proceedings or disputes against us as of the Latest Practicable Date. During the Track Record Period, we had not experienced any strikes or any labour disputes with our employees which had or might have a material adverse impact on our business.

For the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our staff costs were RMB43.3 million, RMB52.2 million, RMB52.9 million and RMB24.2 million. The remuneration packages of our employees include salaries and performance related bonuses as well as our contributions to the statutory social security insurance and housing provident fund.

AWARDS AND RECOGNITIONS

As a result of the quality and strong reputation of our products, our creditworthiness and our contribution to the community, we have been given the following awards, authentication and recognition:

Award	Year	Issuer of Award
High and New Technology Enterprise	14 October 2014 (valid for three years)	Bureau of Technology of Hubei Province Treasury of Hubei Province National Tax Bureau of Hubei Province Local Tax Bureau of Hubei Province
Famous Brand Product of Hubei (湖北名牌產品) for Oumeining (telmisartan) and Kewei capsules (oseltamivir phosphate capsule)	December 2013 (valid for three years)	Leading Group for Implementing the Quality Revitalizing Province Strategy of Hubei Province (湖北省實施質量興省戰略工作領導小組辦公室) Hubei Association for Quality
Credible Enterprise for the Year of 2010 to 2011	28 May 2013	Hubei Administrative Bureau for Industry and Commerce

Award	Year	Issuer of Award
Top 10 Innovative Enterprises in the Second Campaign in the Pharmaceutical Industry of Hubei Province (湖北省醫藥行業第二屆系列評選-創新型企業十強)	August 2012 (valid for two years)	Hubei Pharmaceutical Industry Campaign Committee (湖北省醫藥行業評選活動組委會)
First Class Award of Science and Technology Progress Prizes (科學技術進步獎一等獎)	May 2012	People's Government of Yidu City
Major Scientific and Technological Achievements for the Technology for Producing Recombinant Human Insulin (重組人胰島素)	November 2008	Technology Bureau of Hubei Province

PERMITS, LICENCES AND CERTIFICATIONS

We are subject to regular inspections, examinations and audits and are required to maintain or renew the necessary permits, licences and approvals for our business. The Directors, as advised by our PRC legal adviser, confirm that, during the Track Record Period and up to the Latest Practicable Date, the Group had complied with relevant PRC laws and regulations in all material respects and had obtained all material permits, licences and certifications from the relevant PRC authorities for its operations in China.

The following table sets forth key permits, licences and certifications relating to our business and operations (apart from those pertaining to general business requirements), their respective purpose, issuing authority and expiry date:

Permit/Licence/ Approval	Purpose	Issuing authority	Expiry date
Drug Production Licence	Production of pharmaceutical products at our Yidu Base Area No. 1, Yidu Base Area No. 2 and Yidu Base Area No. 3	Hubei Province Food and Drug Administration	31 December 2015(1)
GMP (HB20120030)	Production of metronidazole bulk drug at our Yidu Base Area No. 1	Hubei Province Food and Drug Administration	9 August 2017
GMP (CN20140298)	Production of lyophilized powder for injection at our Yidu Base Area No. 1	CFDA	23 July 2019
GMP (HB20140082)	Production of tablets, capsules, granules, dry suspension and API (fudosteine) at our Yidu No. 1 Base	Hubei Province Food and Drug Administration	24 April 2019
GMP (HB20130068)	Production of benzbromarone, telmisartan, mycophenolate mofetil, lansoprazole, valaciclovir hydrochloride, oseltamivir phosphate phosphate, levamlodipine besylate and zidovudine APIs at our Yidu Base Area No. 1 and Yidu Base Area No. 2	Hubei Province Food and Drug Administration	16 December 2018
Certificate for Work Safety Standardization	Authorisation of the III-grade enterprise of work safety standardization	China Association of Work Safety	21 April 2017

Note:

(1) As per the Company's previous practice, the renewal application was submitted to the relevant authorities in October 2015 and the Company expects to obtain the new Drug Production Licence before 31 December 2015.

Permit/Licence/ Approval	Purpose	Issuing authority	Expiry date
Drug Trading Licence (Yichang HEC Pharmaceutical)	Trading for pharmaceutical products	Hubei Province Food and Drug Administration	13 July 2016
GSP (AA0500031) (Yichang HEC Pharmaceutical)	Quality management of the supply of pharmaceutical products	Hubei Province Food and Drug Administration	13 July 2016

INTERNAL CONTROL AND RISK MANAGEMENT

It is the responsibility of the Board of Directors to ensure that the Company maintains sound and effective internal controls to safeguard the Shareholders' investment and the Group's assets at all times. In preparation for the Listing, we engaged an internal control consultant to perform certain procedures in May 2015 in respect of our internal control. Upon completion of such procedures, the internal control consultant provided us with a number of findings and the relevant recommendations, which we have adopted in full. In particular, we have adopted a series of internal control policies, procedures and programmes designed to achieve effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- *Internal Audit.* We put in place the internal audit charter that clearly states the objectives, organisation, roles and responsibilities, working scope and procedures of our internal audit function. We established an internal audit department that is responsible for internal auditing and execution of anti-bribery measures in accordance with the internal audit charter. The internal audit department reports to our senior management and the audit committee.

- *Listing Rules Compliance.* We have adopted various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions, notifiable transactions, inside information and securities transactions by the Directors. We have designated staff to monitor our compliance with Listing Rules and other applicable laws and regulations who have the power to investigate relevant incidents if any and communicate with the related authorities or advisers.

- *Code of Conduct*. Our code of conduct explicitly communicates to each employee our values, acceptable criteria for decision-making and our ground rules for behaviour. Our code of conduct also includes whistle-blowing policies to encourage all employees to speak up against any sub-standard behaviour. We also established an anti-money laundering management group and a related working group that are responsible for monitoring and supervising the implementation of our code of conduct and our anti-money laundering policies.

LEGAL AND COMPLIANCE

As at the Latest Practicable Date, no member of the Group or any of the Directors was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Group or any of the Directors, that would have a material adverse effect on its business, results of operations or financial condition. We may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business.

Non-compliance Incident in relation to Social Security Insurance and Housing Provident Funds Contributions

Historical Non-compliance Incident

We did not register with the relevant governmental authority to make contributions to the relevant social security insurance and housing provident funds for certain employees during the Track Record Period and up to June 2015 for the following reasons: (i) certain employees voluntarily asked the Company not to make the relevant contributions and had themselves contributed the contributions to the relevant social security insurance and housing provident funds and (ii) the relevant contributions were made by our Controlling Shareholders or affiliates of our Controlling Shareholders on behalf of the Company.

As advised by our PRC legal advisers, according to the applicable PRC laws and regulations, the obligation to make contributions to the social security insurance and housing provident funds is on the Company and cannot be delegated to the employees or other affiliated companies of the Company. Therefore, although the Company believes that the required amounts of social security insurance and housing provident funds contributions in respect of the affected employees have been made, the Company has not discharged its legal obligations under the relevant PRC laws and regulations as such contributions should have been made by the Company itself (and not by its affiliates or by the relevant employee). A failure in making adequate contributions for employees' social security insurance may give rise to a daily default interest rate of 0.05% and a maximum fine of no more than three times of the unpaid contribution amount. In respect of the housing provident fund contributions, if any competent authority is of the view that the housing provident fund contributions we made could not satisfy the requirements under the relevant PRC laws and regulations, it can order us to make the outstanding balance to the relevant local authorities within a given period. The estimated outstanding amount in relation to those social security insurance and housing provident fund contributions that were made by our Controlling Shareholders or its affiliates (instead of us) for the year ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2015 was approximately RMB771,000, RMB887,000, RMB755,000 and RMB264,000, respectively. The estimated total outstanding amount in relation to those social security insurance and housing provident fund contributions that were made by our employees (instead of us) was de minimis.

Remedies and Rectification Measures

Since June 2015, we have been making contributions to all of our employees for their social security insurance and housing provident funds in accordance with the applicable PRC laws and regulations.

We have not been ordered by any authorities to make contributions previously unpaid nor are we aware of any employee complaints or demands for payment of previously unpaid housing provident funds and social security insurance contributions.

Based on the written confirmations issued by Yidu Social Security Fund Collection Examination Bureau (宜都市社會保險局基金徵收稽查局) and Yidu Office of Yichang Housing Provident Funds Management Centre (宜昌住房公積金管理中心宜都辦事處), during the Track Record Period, no material administrative penalty was imposed on our Group and there was no dispute between our Group and the two authorities. After consultations with Yidu Social Security Fund Collection Examination Bureau (宜都市社會保險局基金徵收稽查局) and Yidu Office of Yichang Housing Provident Funds Management Centre (宜昌住房公積金管理中心宜都辦事處), which our PRC legal adviser has confirmed to be the competent PRC government authorities, our PRC legal adviser is of the view that the possibility of any relevant PRC government authorities to impose penalties on our Group in relation to the above historical non-compliance incident to be remote.

Parent Company has also undertaken to indemnify us against any losses or penalties suffered by any member of our Group, arising out of or in connection with the above historical non-compliance incident.

Internal Control Measures to Ensure On-going compliance

To ensure on-going compliance with PRC laws and regulations in relation to social security insurance and housing provident funds contributions, we have designated our human resources department to be responsible for matters relating to social security insurance and housing provident funds contributions of the Group, which will constantly monitor our on-going compliance, investigate into any issues detected in a timely manner and communicate with the relevant local governmental authority to ensure we fulfil our obligations under the applicable PRC laws and regulations.

Director's confirmation

Save as disclosed in this prospectus, the Directors, as advised by our PRC legal adviser, confirm that as at the Latest Practicable Date, the Group had complied with all relevant PRC laws and regulations in all material respects and had obtained all necessary material licenses, approvals and permits from the relevant regulatory authorities for its operations in China.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements as at and for each of the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015 and the accompanying notes, included in the financial information section of Accountants' Report as set out in Appendix I to this prospectus. We have prepared our financial information in accordance with IFRS.

The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a PRC pharmaceutical manufacturing company that focuses on the development, manufacturing and sale of pharmaceutical products in the therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases. According to PICO, our anti-influenza virus product, Kewei (oseltamivir phosphate) accounted for 0.5%, 3.8% and 8.2% of the market value of the PRC anti-influenza virus product market (based on retail prices, excluding traditional Chinese medicine products) in 2012, 2013 and 2014, respectively, ranking us amongst the top four pharmaceutical companies in the PRC anti-influenza virus product market in 2014. According to PICO, we were ranked first in the PRC in terms of turnover from the sale of oseltamivir phosphate products in each of 2013 and 2014.

During the Track Record Period, most of our turnover was generated from our sales to third-party distributors. As at 30 June 2015, we had established an extensive distribution network comprising 1,594 third-party distributors, covering all provinces of China. We report our turnover by four key therapeutic areas: anti-viral products, products for the treatment of endocrine and metabolic diseases, products for the treatment of cardiovascular diseases and other products.

Our turnover increased by 17.5% from RMB269.2 million in 2012 to RMB316.4 million in 2013, and further increased by 39.3% to RMB440.9 million in 2014. Our net profit increased by 151.3% from RMB23.0 million in 2012 to RMB57.8 million in 2013, and further increased by 134.1% to RMB135.3 million in 2014. For the six months ended 30 June 2014 and 2015, our turnover increased by 58.0% from RMB242.3 million to RMB382.9 million, and our net profit increased by 86.6% from RMB82.1 million to RMB153.2 million.

BASIS OF PRESENTATION

Our Company was formerly named Yichang Changjiang Pharmaceutical Company Limited (宜昌長江藥業有限公司), a limited liability company incorporated in Yichang City, Hubei Province, the PRC on 8 August 2001, which was converted into a joint stock limited liability company in the PRC on 11 May 2015. We conduct our business mainly in the PRC.

Our consolidated statements of profit or loss and other comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period comprise the Company and its subsidiaries. Our financial information has been prepared in accordance with IFRS on a historical cost basis. We present our financial information in Renminbi, rounded to the nearest thousand. All material intra-group transactions and balances have been eliminated on consolidation.

We disposed of the 100% equity interest of Ruyuan HEC Pharma to Parent Company in September 2014 as part of the reorganisation of the Company in preparation for the Listing of the Company's Shares on the Stock Exchange. The disposal has been accounted for as a disposal of entity under common control as both our Company and Parent Company are controlled by Shenzhen HEC Industrial. Accordingly, the relevant assets and liabilities of Ruyuan HEC Pharma have been derecognised at their historical cost, with the difference between the considerations received and net assets transferred by our Company being recognised in retained earnings upon the completion of transfer.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial information. Some of our critical accounting policies involve subjective assumptions and estimates, as well as complex judgments by our management relating to accounting items. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue Recognition

We measure revenue at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to our Group and the revenue and costs (if applicable) can be measured reliably, we recognise revenue in profit or loss as follows:

(i) with respect to revenue from sales of goods, it is recognised when goods are delivered at the customer's premises which is taken to be the point in time when the customer (typically one of our distributors) has accepted the goods and the related risks and rewards. We do not accept returned products from our distributors if the only reason for returning is that the distributors failed to on-sell the products to their customers. Accordingly, in relation to sales to our distributors, we generally recognise revenue at the wholesale price once our distributors have accepted our products. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts;

(ii) with respect to interest income, it is recognised on an accrual basis using the effective interest method;

(iii) with respect to government grants, it is recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that our Group will comply with the conditions attaching to them. We recognise grants that compensate our Group for expenses incurred as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. We recognise grants that compensate our Group for the cost of an asset initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of such asset; and

(iv) with respect to service income, it is recognised when the relevant services are rendered.

Property, plant and equipment

Our property, plant and equipment primarily consist of our buildings, machinery and equipment, computer and office equipment, motor vehicles and construction in progress. We state property, plant and equipment, at cost less accumulated depreciation and impairment losses. The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour and our initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

In respect of gains or losses arising from the retirement or disposal of an item of property, plant and equipment, it is calculated as the difference between the net disposal proceeds and the carrying amount of the item. We recognise such gains or losses in profit or loss on the date of retirement or disposal.

We calculate depreciation to write off the cost of each item of property, plant and equipment, less their estimated residual value, if any, using the straight line method over its estimated useful life as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion
- Machinery and equipment 15 years
- Motor vehicles 10 years
- Office equipment and others 5-8 years

If parts of an item of property, plant and equipment have different useful lives, we allocate the cost of the item on a reasonable basis between the parts and each part is depreciated separately. We conduct annual review on the useful life of an asset and its residual value, if any.

In respect of construction in progress, which represents property, plant and equipment under construction, we state it at cost less impairment losses without depreciation provided. The cost of a construction in progress comprises direct costs of construction during the construction period. We reclassify construction in progress to the appropriate category of property, plant and equipment upon its completion for use.

Impairment of Assets

Impairment of trade and other receivables

We review and assess whether there is any objective evidence of impairment at the end of each reporting period. We state trade and other receivables at amortised cost. We determine our trade and other receivables to be impaired if there is objective evidence of impairment as a result of events that have occurred after initial recognition of the receivable, and such events impact on the recoverability of the receivable. Our assessment of recoverability requires us to make judgements and estimates based on evidence that the debtor is experiencing significant financial difficulty, a breach of contract (such as a default or delinquency in interest or principal payments), the probability that the debtor will commence bankruptcy procedure or other financial reorganisation, and significant changes in the technological, market, economic or legal environment that have an adverse impact on the debtor.

With any one or more of the above evidence, our assessment and recognition of any impairment loss are as follows. In respect of trade and other receivables carried at amortised cost, we measure the impairment loss as the difference between the trade and other receivables' carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. We make this assessment collectively, where these financial assets share similar risk characteristics (such as similar past due status) and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

We record impairment losses recognised in respect of trade and other receivables included within trade and other receivables, whose recovery is considered doubtful but not remote, using an allowance account. If we are satisfied that recovery is remote, we write off the amount considered irrecoverable against trade and other receivables directly and reverse any amounts held in the allowance account relating to that debt. We reverse subsequent recoveries of amounts previously charged to the allowance account against the allowance account. We recognise other changes in the allowance account and subsequent recoveries of amounts previously written off directly in profit or loss.

Impairment of other assets

At the end of each reporting period, we review internal and external sources of information in relation to (i) property, plant and equipment, (ii) interest in leasehold land held for our own use under operating leases, (iii) prepayment and (iv) investments in our subsidiaries, to identify indications whether these assets may be impaired, or an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, we estimate the asset's recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

We recognise an impairment loss in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. We allocate impairment losses recognised in respect of cash-generating units to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, expect that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

We reverse an impairment loss if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years, and it is credited to profit or loss in the period in which the reversal is recognised.

Research and Development Costs

We state research and development costs to include all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities.

Due to the nature of the research and development activities of a pharmaceutical company, our research costs and development costs are generally recognised as expenses in the period in which they are incurred. It is typical that a drug research or development programme will not meet the criteria for the recognition of such costs as an asset until late in the development stage of the project when the remaining development costs are immaterial.

Inventories

Inventories are stated at the lower of cost and net realisable value. We calculate cost using the weighted average cost formula and include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary for marketing, selling and distribution.

When inventories are sold, we recognise the carrying amount of those inventories as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe the most significant factors affecting our results of operations and financial condition are as follows.

Market Demand for Our Products

We generate substantially all of our revenue in the PRC. Our financial results have been driven in part by the rapid growth of the PRC pharmaceutical end market in recent years. According to PICO, the market value of the PRC pharmaceutical end market grew at a CAGR of 17.6% from RMB553.5 billion in 2009 to RMB1,245.7 billion in 2014, and is expected to increase by a CAGR of 10.9% from 2014 to 2017 to reach RMB1,688.7 billion by 2017. Our turnover amounted to RMB269.2 million, RMB316.4 million, RMB440.9 million and RMB382.9 million in 2012, 2013, 2014 and the six months ended 30 June 2015, respectively. With our existing portfolio of products and our strong pipeline of future products, we believe that we are well positioned to take advantage of the expected fast growth of the pharmaceutical end market in the PRC through our focus on our key therapeutic areas of anti-virus, endocrine and metabolic diseases and cardiovascular diseases. Market demand for our products is and will be subject to a number of factors, including but not limited to consumer perception of our brand and similar products offered by our competitors, the success of our marketing and educational promotion activities, inclusion of our products in the relevant catalogues, sales performance of our distributors, levels of disposable income and healthcare spending and changes in the regulatory environment in the PRC.

Regulatory Environment of the PRC Pharmaceutical Industry

As the PRC pharmaceutical industry is highly regulated, our results of operations are and will continue to be affected by the regulations and policies implemented in the PRC, including, in particular, the centralised tender process for procurement of pharmaceutical products and the inclusion or exclusion of a pharmaceutical product in the National Medical Insurance Drug Catalogue and National List of Essential Drugs.

Under PRC laws and regulations, each public hospital owned or controlled by the PRC government must make its purchase of pharmaceutical products through a centralised tender process. Pursuant to these centralised tender process, we submit bids to the local government or its designated institution that runs the centralised tender process to supply our products at specified prices. The tender selection is conducted on the basis of several factors, including the bidding price, product quality, curative effectiveness and the pharmaceutical manufacturer's reputation and business scale.

If we are selected as the winning bidder, the relevant products will be sold to the public hospitals at the bid prices, which in part determine the prices at which we sell our products to our distributors. The tender process can create pricing pressure among substitute products or products that are perceived to be substitute products. Our bidding strategy generally focuses on the curative effectiveness and the good quality of our products instead of competing solely based on pricing. However, if we are not successful in winning bids in the centralised tender process in a province at profitable levels in the future, we will lose the revenue associated with the sales of the relevant products in that province. Please see "Risk Factors – Risks Relating to Our Business and Industry – If we are unable to win bids through the centralised tender processes conducted by PRC authorities, we will lose market share and our revenues and profitability could be adversely affected" for further details of the risks associated with the centralised tender process.

During the Track Record Period, a number of our products were subject to price control. We maintain a database of our products that are subject to such pricing regulations and adjust our marketing and sales strategy in accordance with the relevant price control applicable to each product. From 1 June 2015, pharmaceutical products (other than anaesthetic products and certain psychotropic drugs) would no longer be subject to price control by the PRC government. For details, please see "Regulatory Overview – PRC Law Regulations in Relation to the National Medical Insurance Programme and Price Controls of Pharmaceutical Products – Drug Price". As we do not currently manufacture or sell any anaesthetic products or psychotropic drugs, we believe that the new regulatory regime is beneficial to us as this will allow us to adjust the wholesale prices of our products according to the prevailing market conditions, including the retail prices of our products which may be affected by market forces from time to time.

Our operational performance is also affected by the inclusion or exclusion of a pharmaceutical product in the National Medical Insurance Drug Catalogue, the Provincial Medical Insurance Drugs Catalogue and National List of Essential Drugs. Under the PRC national medical insurance programme, patients can claim reimbursement of all or a portion of the cost of certain pharmaceutical products listed in the National Medical Insurance Drugs Catalogue, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs. According to the National Bureau of Statistics, approximately 536.4 million and 570.7 million people in China were enrolled in urban basic medical care insurance programmes as at 31 December 2012 and 2013, respectively. Hence, whether a pharmaceutical product is included or excluded in the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs will materially affect the demand for such pharmaceutical product in the PRC.

When deciding whether a pharmaceutical product would be listed in the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues or the National List of Essential Drugs, the PRC government considers a number of factors, including, among other things, the results of clinical trials, frequency of use, effectiveness of the product and the prevalence of the disease or symptom that such product is designed to treat or prevent. The pharmaceutical products listed in the National Medical Insurance Drugs Catalogues, the Provincial Medical Insurance Drugs Catalogues and the National List of Essential Drugs are also reviewed and updated from time to time. Please see "Risk Factors – Risks Relating to Our Business and Industry – If our products are removed or excluded from the National Medical Insurance Drugs Catalogue, the Provincial Medical Insurance Drugs Catalogue or the National List of Essential Drugs, our sales and profitability in relation to the affected products could be materially and adversely affected." for further details.

As at the Latest Practicable Date, we had 25 pharmaceutical products listed in the National Medical Insurance Drugs Catalogues. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, these 25 products accounted for 79.8%, 77.6%, 66.9% and 51.2% of our turnover, respectively. A list of such products are set out in "Business – Our Products – List of All of Our Current Products Manufactured and Sold in the PRC (Excluding APIs)".

Our Commercialisation and Acquisitions of New Pharmaceutical Products

We believe our strong pipeline of future products in several fast-growing therapeutic areas will be the driving force behind our long-term competitiveness, as well as our future growth and profitability. We intend to diversify our product portfolio in the future with the objective of spreading our revenue across multiple products in our various key therapeutic areas. In particular, we believe that there is substantial growth potential in the PRC markets for anti-viral products, products for the treatment of endocrine and metabolic diseases and products relating to the digestive system. We have a strong pipeline of future products in various therapeutic areas, including products for the treatment of endocrine and metabolic diseases and products for the treatment of digestive diseases and anti-viral products. As at the Latest Practicable Date, we had 18 key products in different stages of development. Such 18 key products not only cover the three key therapeutic areas described above, but also cover therapeutic areas such as our current key therapeutic areas of cardiovascular diseases and new therapeutic areas such as diseases relating to the central nervous system. Please see "Business – Future Products" for a full list of upcoming key products in our pipeline.

Our ability to successfully commercialise our new pharmaceutical products in several key therapeutic areas in the manner we contemplate and to achieve the sales we expect is subject to a number of risks and uncertainties, many of which are beyond our control. Please see "Risk Factors – Risks Relating to Our Business and Industry – The necessary approvals in relation to our upcoming products in our product pipeline may be delayed or may not be obtained." for further details of the risks relating to the commercialisation of new pharmaceutical products.

Acquisitions of pharmaceutical products from HEC Research Group and other third parties will also contribute to our future growth and expansion into new therapeutic areas. We intend to continue to acquire the rights to commercialise new pharmaceutical products pursuant to the Strategic Cooperation Agreement and separately through strategic acquisitions or licences from other third parties. We believe that this strategy will allow us to expand our product range going forward and provide the stimulus for further growth to our business and profitability. We balance clinical development risk by strategically aligning with Shenzhen HEC Industrial, which has granted us the first right to acquire a number of products being developed by it and its subsidiaries. However, our ability to successfully consummate acquisitions and grow our business through such acquisitions is subject to a number of risks and uncertainties, many of which are beyond our control. Please see "Risk Factors – Risks Relating to Our Business and Industry – Our ability to expand our product portfolio depends on our ability to acquire from other parties the rights to manufacture and sell new products, in particular, we will continue to rely on the Strategic Cooperation Agreement with Shenzhen HEC Industrial. We conduct limited research and development in-house in respect of new products." for the associated risks and uncertainties.

Our Preferential Tax Treatments

Our Company operates in the PRC, and our profits are subject to the PRC enterprise income tax. The EIT Law imposes a unified enterprise income tax rate of 25% on all domestic and foreign invested enterprises unless they are qualified for preferential tax treatments. Under the EIT Law and its implementation rules, our Company has been qualified as a "High and New Technology Enterprise" ("HNTE") since 2011, and was therefore entitled to a preferential tax rate of 15% during the Track Record Period. Such qualification will expire in October 2017, subject to renewal upon review and approval by the relevant tax authority.

The preferential enterprise income tax rate is subject to review and approval by tax authority every three years. If the PRC government changes the policies governing the preferential enterprise income tax rate or our Company is not qualified as HNTE under the EIT Law and its implementation rules after periodical review by the relevant tax authority, our result of operations and financial condition could be adversely affected.

In addition, Yichang HEC Pharmaceutical has been qualified as a Small Micro-Size Enterprise (小微企業) since 2014, and was therefore entitled to a preferential tax rate of 10% for the year ended 31 December 2014 and the six months ended 30 June 2015. Save as disclosed above, our subsidiaries were subject to the PRC statutory enterprise income tax rate of 25% during the Track Record Period.

DESCRIPTION OF PRINCIPAL CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ITEMS

Turnover

Our turnover consists primarily of sales of anti-viral drugs, cardiovascular drugs, endocrine and metabolic drugs and other products. The table below sets forth, for the periods indicated, a breakdown of our turnover derived from products of our key therapeutic areas.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Anti-viral drugs	13,488	5.0%	75,417	23.8%	199,414	45.2%	128,161	52.9%	272,461	71.2%
Cardiovascular drugs	97,024	36.0%	98,311	31.1%	106,209	24.1%	49,747	20.5%	50,310	13.1%
Endocrine and Metabolic drugs	19,361	7.2%	25,522	8.1%	32,514	7.4%	13,452	5.6%	15,919	4.2%
Others	139,334	51.8%	117,179	37.0%	102,767	23.3%	50,947	21.0%	44,174	11.5%
Total	269,207	100.0%	316,429	100.0%	440,904	100.0%	242,307	100.0%	382,864	100.0%

The table below sets forth, for the periods indicated, a breakdown of our turnover generated from our key products.

	Year ended 31 December						Six months ended 30 June			
Key Product	2012		2013		2014		2014		2015	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Anti-viral drugs										
Kewei (Oseltamivir phosphate granules)	6,978	2.6%	33,228	10.5%	119,832	27.2%	66,463	27.4%	176,585	46.1%
Kewei (Oseltamivir phosphate capsules)	2,220	0.8%	36,888	11.7%	74,641	16.9%	59,554	24.6%	94,304	24.6%
Kewei (Oseltamivir phosphate) (subtotal)	9,198	3.4%	70,116	22.2%	194,473	44.1%	126,017	52.0%	270,889	70.7%

Key Product	Year ended 31 December 2012		2013		2014		Six months ended 30 June 2014		2015	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Cardiovascular drugs										
Oumeining (Telmisartan tablets)	35,164	13.1%	38,831	12.3%	42,604	9.7%	20,875	8.6%	22,027	5.8%
Xinhaining (Amlodipine besylate tablets)	34,209	12.7%	30,614	9.7%	35,020	7.9%	15,693	6.5%	16,096	4.2%
Endocrine and Metabolic drugs										
Ertongshu (Benzbromarone tablets)	17,297	6.4%	23,338	7.4%	30,025	6.8%	12,416	5.1%	14,774	3.9%
Other products										
Xining (Cetirizine hydrochloride tablets)	33,206	12.3%	32,003	10.1%	35,543	8.1%	15,328	6.3%	14,664	3.8%
Azithromycin products	30,423	11.3%	26,396	8.3%	21,940	5.0%	11,928	4.9%	10,141	2.6%
Other turnover	109,710	40.8%	95,131	30.0%	81,299	18.4%	40,050	16.6%	34,273	9.0%
Total	269,207	100.0%	316,429	100.0%	440,904	100.0%	242,307	100.0%	382,864	100.0%

Cost of Sales

Our cost of sales consists of (i) cost of materials, primarily representing cost of API, ancillary materials and packaging materials, (ii) royalty fee paid to third parties in relation to various patent licences, (iii) labour cost, primarily representing salaries and welfare benefits of our staff directly involved in the manufacture of our products, and (iv) manufacturing overhead, primarily representing depreciation cost of machinery and facilities and cost of labour protection materials, fuel, machine oil and maintenance.

The table below sets forth, for the periods indicated, the components of our cost of sales and the components as a percentage of our total cost of sales.

	Year ended 31 December 2012		2013		2014		Six months ended 30 June 2014		2015	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Cost of materials	88,535	76.5%	83,137	71.7%	72,546	60.5%	46,326	65.1%	54,592	55.1%
Royalty fee	976	0.8%	8,630	7.4%	20,846	17.4%	14,193	20.0%	29,903	30.2%
Labour cost	10,326	8.9%	13,565	11.7%	13,737	11.5%	6,189	8.7%	9,161	9.3%
Manufacturing overhead	15,887	13.8%	10,636	9.2%	12,700	10.6%	4,416	6.2%	5,340	5.4%
Total	115,724	100.0%	115,968	100.0%	119,829	100.0%	71,124	100.0%	98,996	100.0%

The table below sets forth, for the periods indicated, the components of our cost of materials and the components as a percentage of our total cost of materials.

	Year ended 31 December						Six month ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Production materials for oseltamivir phosphate	1,280	1.4%	10,671	12.8%	19,015	26.2%	16,594	35.8%	27,292	50.0%
Production materials for telmisartan *(Note 1)*	3,541	4.0%	3,017	3.6%	6,860	9.5%	3,179	6.9%	1,660	3.0%
Production materials for amlodipine besylate *(Note 2)*	707	0.8%	728	0.9%	649	0.9%	319	0.7%	286	0.5%
Production materials for benzbromarone	997	1.1%	1,426	1.7%	1,588	2.2%	785	1.7%	935	1.7%
Production materials for cetirizine	778	0.9%	718	0.9%	772	1.1%	325	0.7%	304	0.6%
Production materials for azithromycin	18,969	21.4%	14,538	17.5%	9,670	13.3%	5,005	10.8%	5,599	10.3%
Other chemical materials *(Note 3)*	51,859	58.6%	39,908	48.0%	20,666	28.4%	15,468	33.4%	11,405	20.9%
Subtotal	78,131	88.2%	71,006	85.4%	59,220	81.6%	41,675	90.0%	47,481	87.0%
Ancillary materials and packaging materials *(Note 4)*	10,404	11.8%	12,131	14.6%	13,326	18.4%	4,651	10.0%	7,111	13.0%
Total	88,535	100.0%	83,137	100.0%	72,546	100.0%	46,326	100.0%	54,592	100.0%

Note 1: As there are relatively small number of quality suppliers of telmisartan API in the market, we adopted a model of acquiring telmisartan API from third parties as well as self producing telmisartan API for our needs. The costs for self-produced telmisartan API is relatively high. In 2013, we mainly purchased telmisartan API externally, which meant that the cost of our production materials for telmisartan was relatively low. Therefore, the costs of materials for telmisartan in 2013 was relatively low. In 2014, we mainly used self-produced telmisartan API.

Note 2: In 2013, the turnover from Xinhaining decreased due to its decreased unit price, but the sales volume of Xinhaining increased. This led to a fall in the turnover for Xinhaining but an increase in its cost of production materials. In 2014, the price of amlodipine API decreased substantially which led to a fall in its cost of production materials even though turnover from Xinhaining increased in that period.

Note 3: Other chemical materials mainly include production materials for antibiotics and other APIs. As the gross profit margin for antibiotics and API products were relatively low, since 2012 the Company has reduced the production of such products and focused on pharmaceutical products (other than antibiotics). Therefore, the cost of other chemical materials has decreased.

Note 4: The cost for ancillary materials and packaging materials for antibiotics and APIs make up a relatively higher proportion of their respective cost of materials, compared to our key pharmaceutical products. During the Track Record Period, as the production volume of antibiotics and API products made up a lower proportion of our total production volume, the increase in the cost of ancillary materials and packaging materials was lower than the increase in our turnover.

Gross Profit

Gross profit represents the excess of revenue over cost of sales. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our gross profit was RMB153.5 million, RMB200.5 million, RMB321.1 million, RMB171.2 million and RMB283.9 million, respectively, and our gross profit margin was 57.0%, 63.4%, 72.8%, 70.6% and 74.1%, respectively.

The table below sets forth, for the periods indicated, gross profit generated from our key products and the gross profit generated from each key product as a percentage of our total gross profit.

	Year ended 31 December						Six months ended 30 June			
Key Product	**2012**		**2013**		**2014**		**2014**		**2015**	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Anti-viral drugs										
Kewei (Oseltamivir phosphate granules)	2,221	1.4%	24,147	12.0%	92,895	28.9%	50,173	29.3%	140,314	49.4%
Kewei (Oseltamivir phosphate capsules)	1,169	0.8%	20,290	10.1%	57,262	17.9%	42,089	24.6%	68,721	24.2%
Kewei (Oseltamivir phosphate) (subtotal)	3,390	2.2%	44,437	22.1%	150,157	46.8%	92,262	53.9%	209,035	73.6%
Cardiovascular drugs										
Oumeining (Telmisartan tablets)	30,180	19.7%	34,392	17.2%	34,386	10.7%	17,191	10.0%	19,481	6.9%
Xinhaining (Amlodipine besylate tablets)	31,163	20.3%	26,611	13.3%	31,236	9.7%	13,876	8.1%	14,381	5.1%
Endocrine and Metabolic drugs										
Ertongshu (Benzbromarone tablets)	15,826	10.3%	21,320	10.6%	27,714	8.6%	11,324	6.6%	13,470	4.8%
Other products										
Xining (Cetirizine hydrochloride tablets)	29,307	19.1%	28,192	14.1%	31,372	9.8%	13,521	7.9%	12,908	4.5%
Azithromycin products	4,908	3.2%	5,234	2.6%	6,500	2.0%	3,776	2.2%	2,025	0.7%
Gross profit from other products/businesses	38,709	25.2%	40,275	20.1%	39,710	12.4%	19,233	11.3%	12,568	4.4%
Total	153,483	100.0%	200,461	100.0%	321,075	100.0%	171,183	100.0%	283,868	100.0%

The table below sets forth, for the periods indicated, the gross profit margins of our key products.

Key Product	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	Gross Profit Margin	*Gross Profit Margin*	*Gross Profit Margin*	*Gross Profit Margin*	*Gross Profit Margin*
Anti-viral drugs					
Kewei (Oseltamivir phosphate granules)	32%	73%	78%	75%	79%
Kewei (Oseltamivir phosphate capsules)	53%	55%	77%	71%	73%
Cardiovascular drugs					
Oumeining (Telmisartan tablets)	86%	89%	81%	82%	88%
Xinhaining (Amlodipine besylate tablets)	91%	87%	89%	88%	89%
Endocrine and Metabolic drugs					
Ertongshu (Benzbromarone tablets)	91%	91%	92%	91%	91%
Other products					
Xining (Cetirizine tablets)	88%	88%	88%	88%	88%
Azithromycin products	16%	20%	30%	32%	20%

The gross profit margin for Kewei is generally lower than the gross profit margin of our other top five products, as the cost of sales for Kewei includes royalty fees which are not applicable to our other top five products.

Other Revenue

Our other revenue primarily consists of (i) government grants, primarily representing amortisation of government grant for our construction of the production line of Kewei by instalment in accordance with accounting standards, allowance granted for our research and development projects and other awards granted by local authorities, (ii) interest income (which was generated mostly from loans to related parties and from bank deposits), and (iii) research and development service income received from related parties and other miscellaneous income. Such research and development service included providing our facilities and materials for test trials of products under development, manufacturing products under development in small to medium batches to facilitate clinical trails and other tests, and testing manufacturing methods and techniques. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our other revenue was RMB40.7 million, RMB66.7 million, RMB54.8 million, RMB27.8 million and RMB4.7 million, respectively, accounted for 15.1%, 21.1%, 12.4%, 11.5% and 1.2% of our total turnover during the same periods, respectively.

The table below sets forth, for the periods indicated, the components of our other revenue.

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Government grants					
– Unconditional subsidies	50	–	323	274	–
– Conditional subsidies	5,529	4,379	4,379	2,023	2,189
Interest income[(1)]	15,006	22,556	21,301	8,969	1,310
Research service income[(2)]	19,778	38,555	28,707	16,494	1,129
Others	289	1,211	119	34	50
	40,652	66,701	54,829	27,794	4,678

Note:

(1) For each of the three years ended 31 December 2014 and the six months ended 30 June 2014 and 2015, interest income represented 4.8%, 5.9%, 4.3%, 3.3% and 0.3% of our total revenue (comprising turnover and other revenue), respectively and represented 65.2%, 39.0%, 15.7%, 10.9% and 0.9% of our net profit, respectively. The amount of interest income derived from loans to related parties for each of the three years ended 31 December 2014 and the six months ended 30 June 2014 and 2015 was RMB14,660,000, RMB22,043,000, RMB21,060,000, RMB8,829,000 and RMB737,000, respectively. Accordingly, we consider that the significance of interest income to our total revenue has reduced during the Track Record Period. As we had discharged all the inter-company loans before Listing, we will not generate interest income from inter-company loans to related parties going forward.

(2) For each of the three years ended 31 December 2014 and the six months ended 30 June 2014 and 2015, research service income represented 6.4%, 10.1%, 5.8%, 6.1% and 0.3% of our total revenue (comprising turnover and other revenue), respectively, and represented 86.0%, 66.7%, 21.2%, 20.1% and 0.7% of our net profit, respectively. Accordingly, we consider that the significance of research service income to our total revenue has reduced during the Track Record Period. Please note that research service income as a percentage of net profit does not take into account the costs associated with the provision of such research service. As we have decided to focus on manufacturing pharmaceutical products instead of providing research services to related parties, we will generate less research service income in the future.

Please see below changes to the balance of our deferred income in relation to government grants during the Track Record Period.

Grant	Conditional/ Unconditional Subsidy	Major Condition(s)	Balance of Deferred Income as at 31 December 2011 *RMB'000*	Increase in Deferred Income in 2012 *RMB'000*	Deferred Income Recognised as Other Revenue in 2012 *RMB'000*	Balance of Deferred Income as at 31 December 2012 *RMB'000*	Increase in Deferred Income in 2013 *RMB'000*	Deferred Income Recognised as Other Revenue in 2013 *RMB'000*	Balance of Deferred Income as at 31 December 2013 *RMB'000*	Increase in Deferred Income in 2014 *RMB'000*	Deferred Income Recognised as Other Revenue in 2014 *RMB'000*	Balance of Deferred Income as at 31 December 2014 *RMB'000*	Increase in Deferred Income for the Six months ended 30 June 2015 *RMB'000*	Deferred Income Recognised as Other Revenue for the Six months ended 30 June 2015 *RMB'000*	Balance of Deferred Income as at 30 June 2015 *RMB'000*
Grant A	Conditional	Completion of renovation of oseltamivir phosphate production line	4,143	–	(332)	3,811	–	(332)	3,479	–	(332)	3,147	–	(166)	2,981
Grant B	Conditional	Proceeds to be used only for specific research projects designated by the local Yidu government	1,150	–	(1,150)	–	–	–	–	–	–	–	–	–	–
Grant C	Conditional	Proceeds to be used only for certain research activities on production processes of the Company	1,120	980	–	2,100	494	–	2,594	–	–	2,594	–	–	2,594

Grant	Conditional/ Unconditional Subsidy	Major Condition(s)	Balance of Deferred Income as at 31 December 2011 *RMB'000*	Increase in Deferred Income in 2012 *RMB'000*	Deferred Income Recognised as Other Revenue in 2012 *RMB'000*	Balance of Deferred Income as at 31 December 2012 *RMB'000*	Increase in Deferred Income in 2013 *RMB'000*	Deferred Income Recognised as Other Revenue in 2013 *RMB'000*	Balance of Deferred Income as at 31 December 2013 *RMB'000*	Increase in Deferred Income in 2014 *RMB'000*	Deferred Income Recognised as Other Revenue in 2014 *RMB'000*	Balance of Deferred Income as at 31 December 2014 *RMB'000*	Increase in Deferred Income for the Six months ended 30 June 2015 *RMB'000*	Deferred Income Recognised as Other Revenue for the Six months ended 30 June 2015 *RMB'000*	Balance of Deferred Income as at 30 June 2015 *RMB'000*
Grant D	Conditional	Subject to completion of certain research projects relating to the manufacturing process of telmisartan	372	–	–	372	542	–	914	–	–	914	–	–	914
Grant E	Conditional	Proceeds to be used only for the construction of certain production facilities	91,151	–	(4,047)	87,104	–	(4,047)	83,057	–	(4,047)	79,010	–	(2,023)	76,987
Grant F	Unconditional	N/A	–	–	(50)	–	–	–	–	–	(150)	–	–	–	–
Grant G	Unconditional	N/A	–	–	–	–	–	–	–	–	(173)	–	–	–	–
Total			97,936	980	(5,579)	93,387	1,036	(4,379)	90,044	–	(4,702)	85,665	–	(2,189)	83,476

Distribution Costs

Our distribution costs consist of (i) marketing expenses relating to conducting educational promotion activities and other marketing and entertainment activities, (ii) travelling expenses for marketing purposes, (iii) labour cost, primarily representing salary and welfare expenses for employees involved in selling and distribution activities, (iv) transportation cost for delivery of products to our customers, (v) depreciation for assets in relation to marketing and distribution activities, and (vi) other expenses, including other miscellaneous operating expenses for our sales representative offices. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our distribution costs were RMB25.1 million, RMB30.6 million, RMB60.1 million, RMB18.4 million and RMB40.8 million, respectively, accounted for 9.3%, 9.7%, 13.6%, 7.6% and 10.7% of our total turnover during the same periods, respectively.

The table below sets forth, for the periods indicated, the components of our distribution costs and the components as a percentage of our total distribution costs.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Marketing expenses	4,458	17.8%	6,850	22.4%	27,661	46.0%	4,598	25.1%	19,762	48.5%
Travelling expenses	2,562	10.2%	3,437	11.2%	7,426	12.4%	1,777	9.7%	7,222	17.7%
Labour cost	9,010	35.9%	11,432	37.4%	13,453	22.4%	6,616	36.0%	6,613	16.2%
Transportation cost	2,943	11.7%	3,413	11.2%	4,629	7.7%	2,430	13.2%	3,479	8.5%
Depreciation	1,405	5.6%	1,684	5.5%	1,814	3.0%	904	4.9%	914	2.2%
Others	4,746	18.8%	3,783	12.3%	5,132	8.5%	2,032	11.1%	2,804	6.9%
Total	25,124	100.0%	30,599	100.0%	60,115	100.0%	18,357	100.0%	40,794	100.0%

Administrative Expenses

Administrative expenses consist of (i) research and development cost, mainly representing material costs, staff costs, depreciation and amortisation expenses and other miscellaneous costs in relation to our research and development activities, (ii) bad debt loss, (iii) tax relating to our properties and land use rights, stamp duty and other miscellaneous tax, (iv) salary and welfare expenses for management and administrative personnel, (v) depreciation and amortisation costs relating to our land use rights of offices and facilities, (vi) travelling and transportation cost in relation to administrative matters, and (vii) others, primarily including professional services fees, entertainment expenses and other miscellaneous expenses. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our administrative expenses were RMB91.4 million, RMB117.2 million, RMB110.3 million, RMB59.7 million and RMB49.8 million, respectively, accounted for 34.0%, 37.1%, 25.0%, 24.6% and 13.0% of our total turnover during the same periods, respectively.

The table below sets forth, for the periods indicated, the components of our administrative expenses and the components as a percentage of our total administrative expenses.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*	*RMB'000 (unaudited)*	*% of total*	*RMB'000*	*% of total*
Research and development cost	63,350	69.3%	81,275	69.3%	73,584	66.7%	40,876	68.5%	21,185	42.5%
Bad debt loss	298	0.3%	2,510	2.1%	2,766	2.5%	2,365	4.0%	7,919	15.9%
Tax	5,577	6.1%	7,116	6.1%	10,319	9.4%	4,492	7.5%	7,545	15.1%
Salary and welfare	10,303	11.3%	12,146	10.4%	11,397	10.3%	5,999	10.0%	4,519	9.1%
Depreciation and amortisation costs	5,345	5.9%	5,740	4.9%	5,237	4.8%	2,963	5.0%	2,268	4.5%
Travelling and transportation cost	1,116	1.2%	1,359	1.2%	787	0.7%	331	0.5%	431	0.9%
Others	5,427	5.9%	7,091	6.0%	6,222	5.6%	2,667	4.5%	5,968	12.0%
Total	91,416	100.0%	117,237	100.0%	110,312	100.0%	59,693	100.0%	49,835	100.0%

Other Net Loss

Our other gain and loss for the year ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 primarily due to disposal of fixed assets and expired APIs and donations made by the Group.

The table below sets forth, for the periods indicated, a breakdown of our other gain and loss.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Gain/(loss) on disposal of fixed assets	30	(185)	(5)	–	13
Others	(36)	(17)	(27)	–	(267)
Total	(6)	(202)	(32)	–	(254)

Finance Costs

Our finance costs primarily consist of interests on our bank loans and fees for advances from related parties, after deducting amounts capitalised in construction in progress. For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our finance costs were RMB46.9 million, RMB48.9 million, RMB42.3 million, RMB23.5 million and RMB14.5 million, respectively, accounted for 17.4%, 15.5%, 9.6%, 9.7% and 3.8% of our total turnover during the same periods, respectively.

The table below sets forth, for the periods indicated, the components of our finance costs and the components as a percentage of our total finance costs.

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interests expenses	52,567	61,984	53,163	30,498	14,509
Less: interest expenses capitalised into construction in progress	(5,670)	(13,040)	(10,833)	(7,029)	–
Total	46,897	48,944	42,330	23,469	14,509

Income Tax

Our income tax primarily consists of PRC enterprise income tax charged on our Group and deferred tax expenses arising from the timing difference between accounting and taxable profits.

The provision for PRC enterprise income tax is based on the statutory rate of 25% of the assessable profits of PRC companies as determined in accordance with the EIT Law which became effective on 1 January 2008. The EIT Law imposes a unified enterprise income tax rate of 25% on all domestic and foreign invested enterprises unless they are qualified for preferential tax treatments. Under the EIT Law and its implementation rules, our Company was qualified as an HNTE since 2011, and therefore enjoyed a preferential tax rate of 15% during the Track Record Period. Such qualification will expire on 14 October 2017, subject to renewal upon review and approval by the relevant tax authority.

Yichang HEC Pharmaceutical has been qualified as a Small Micro-Size Enterprise (小微企業) since 2014, and was therefore entitled to a preferential tax rate of 10% for the year ended 31 December 2014 and the six months ended 30 June 2015. The relevant regulations granting this preferential tax rate is effective until 31 December 2017 and Yichang HEC Pharmaceutical's status as a Small Micro-Size Enterprise is subject to review by relevant PRC authorities each year.

Save as disclosed above, our subsidiaries were subject to the PRC statutory enterprise income tax rate of 25% during the Track Record Period.

RESULTS OF OPERATIONS

The table below sets out our consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, which are derived from the Accountants' Report as set out in Appendix I to this prospectus.

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Turnover	269,207	316,429	440,904	242,307	382,864
Cost of sales	(115,724)	(115,968)	(119,829)	(71,124)	(98,996)
Gross profit	153,483	200,461	321,075	171,183	283,868
Other revenue	40,652	66,701	54,829	27,794	4,678
Distribution costs	(25,124)	(30,599)	(60,115)	(18,357)	(40,794)
Administrative expenses	(91,416)	(117,237)	(110,312)	(59,693)	(49,835)
Other net loss	(6)	(202)	(32)	–	(254)
Profit from operation	77,589	119,124	205,445	120,927	197,663
Finance costs	(46,897)	(48,944)	(42,330)	(23,469)	(14,509)
Profit before taxation	30,692	70,180	163,115	97,458	183,154
Income tax	(7,684)	(12,380)	(27,772)	(15,401)	(29,906)
Profit for the year/period attributable to equity shareholders of the Company	23,008	57,800	135,343	82,057	153,248
Total comprehensive income for the year/period attributable to equity shareholders of the Company	23,008	57,800	135,343	82,057	153,248
Basic and diluted earnings per share	N/A	N/A	N/A	N/A	N/A

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2015 compared with six months ended 30 June 2014

Turnover

Our turnover increased by RMB140.6 million, or 58.0%, from RMB242.3 million for the six months ended 30 June 2014 to RMB382.9 million for the six months ended 30 June 2015, primarily due to increases in turnover derived from sales of anti-viral drugs from RMB128.2 million for the six months ended 30 June 2014 to RMB272.5 million for the six months ended 30 June 2015 and endocrine and metabolic drugs from RMB13.5 million for the six months ended 30 June 2014 to RMB15.9 million for the six months ended 30 June 2015, the effects of which were partially offset by a decrease in turnover derived from sales of other products.

- *Anti-viral drugs*. Revenue derived from sales of anti-viral drugs increased by RMB144.3 million, or 112.6%, from RMB128.2 million for the six months ended 30 June 2014 to RMB272.5 million for the six months ended 30 June 2015, primarily due to our increasing efforts of launching educational promotion activities for Kewei in the first half of 2015, especially in Guangdong, Anhui, Hubei and Zhejiang provinces and a favourable government policy, namely the notice on further strengthening medical treatment of human infection with H7N9 avian influenza (關於進一步加強人感染H7N9禽流感醫療救治工作的通知), issued in Guangdong province on 12 December 2014. In such notice, the Guangdong Health and Family Planning Commission (廣東省衛生和計劃生育委員會) confirmed that oseltamivir phosphate should be used as a regular drug to treat influenza, and urged the health and family planning departments at various levels and medical institutions to change their incorrect perception that oseltamivir phosphate is only a national reserved drug to deal with emergency situations and to purchase sufficient oseltamivir phosphate (in granules form for children) promptly for normal clinical treatment on influenza.

- *Cardiovascular drugs*. Revenue derived from sales of cardiovascular drugs increased by RMB0.6 million, or 1.2%, from RMB49.7 million for the six months ended 30 June 2014 to RMB50.3 million for the six months ended 30 June 2015, primarily due to increases in turnover derived from sales of Oumeining, the effects of which were partially offset by a decrease in turnover derived from sales of simvastatin. The increase in turnover derived from sales of Oumeining was primarily due to its inclusion in the low-price drug list issued by the NDRC which meant the retail price cap previously imposed on such product was removed and we increased the unit price of Oumeining in accordance with its production cost. The decrease in turnover derived from sales of simvastatin was primarily due to our lower bid price of simvastatin in the centralised tender process, the effect of which was partially offset by an increase in its sales volume due to its inclusion into the Provincial List of Essential Drugs.

- *Endocrine and metabolic drugs*. Turnover derived from sales of endocrine and metabolic drugs increased by RMB2.4 million, or 17.8%, from RMB13.5 million for the six months ended 30 June 2014 to RMB15.9 million for the six months ended 30 June 2015, primarily due to an increase in turnover derived from the sales of Ertongshu. The increase in turnover of Ertongshu was primarily due to a general increase in market demand for benzbromarone products.

- *Other products.* Turnover derived from sales of other products decreased by RMB6.7 million, or 13.2%, from RMB50.9 million for the six months ended 30 June 2014 to RMB44.2 million for the six months ended 30 June 2015, primarily due to a decrease in turnover derived from sales of Xining and antibiotics, principally driven by our focus on sales of our products in key therapeutic areas.

Cost of sales

Our cost of sales increased by RMB27.9 million, or 39.2%, from RMB71.1 million for the six months ended 30 June 2014 to RMB99.0 million for the six months ended 30 June 2015, primarily due to increases in the cost of materials, royalty fee, labour cost and manufacturing overhead.

- *Cost of materials.* Cost of materials increased by RMB8.3 million, or 17.9%, from RMB46.3 million for the six months ended 30 June 2014 to RMB54.6 million for the six months ended 30 June 2015, primarily due to our increased consumption of materials as a result of the increased sales volume of our products.

- *Royalty fee.* Royalty fee increased by RMB15.7 million, or 110.6%, from RMB14.2 million for the six months ended 30 June 2014 to RMB29.9 million for the six months ended 30 June 2015, primarily due to our increased turnover in relation to Kewei for the six months ended 30 June 2015.

- *Labour cost*. Labour cost increased by RMB3.0 million, or 48.4%, from RMB6.2 million for the six months ended 30 June 2014 to RMB9.2 million for the six months ended 30 June 2015, primarily due to increases in the number of our employees directly involved in the production of our formulation products and the average salary we paid to such employees.

- *Manufacturing overhead*. Manufacturing overhead increased by RMB0.9 million, or 20.5%, from RMB4.4 million for the six months ended 30 June 2014 to RMB5.3 million for the six months ended 30 June 2015, primarily due to increased sales volume of our products.

Gross profit

As a result of the foregoing, our gross profit increased by RMB112.7 million, or 65.8%, from RMB171.2 million for the six months ended 30 June 2014 to RMB283.9 million for the six months ended 30 June 2015. Our gross profit margin increased from 70.6% for the six months ended 30 June 2014 to 74.1% for the six months ended 30 June 2015, primarily due to decreases in our unit cost of depreciation and unit labour cost. Such decreases were principally driven by a higher utilisation rate we achieved for the six months ended 30 June 2015 and a significant increase in our turnover from RMB242.3 million for the six months ended 30 June 2014 to RMB382.9 million for the six months ended 30 June 2015, which were in turn attributable to the strong market demand for our anti-influenza virus products for the six months ended 30 June 2015.

Other revenue

Our other revenue decreased by RMB23.1 million, or 83.1%, from RMB27.8 million for the six months ended 30 June 2014 to RMB4.7 million for the six months ended 30 June 2015. The decrease was primarily due to a decrease in income generated from research and development services provided to related parties, as we decided to focus on manufacturing pharmaceutical products instead of providing such services, and a decrease in interest income from related parties as a result of the decreased average balance due from related parties.

Distribution costs

Distribution costs increased by RMB22.4 million, or 121.7%, from RMB18.4 million for the six months ended 30 June 2014 to RMB40.8 million for the six months ended 30 June 2015. The increase was primarily due to (i) our increasing efforts to conduct educational promotion activities for Kewei to attend and sponsor not only large-scale conferences at national and provincial level but also small to medium size conferences at local level, (ii) an increase in sales of our products, and (iii) an increase in marketing expenses for educational promotion activities for Ertongshu in the first half of 2015.

Administrative expenses

Administrative expenses decreased by RMB9.9 million, or 16.6%, from RMB59.7 million for the six months ended 30 June 2014 to RMB49.8 million for the six months ended 30 June 2015. The decrease was primarily due to our inclusion of the administrative expenses of Ruyuan HEC Pharma in our consolidated administrative expenses in the first half of 2014, whereas such administrative expenses were excluded from our consolidated administrative expenses during the first half of 2015, following our disposal of Ruyuan HEC Pharma in September 2014.

Other net loss

We recorded other net loss of RMB0.3 million for the six months ended 30 June 2015, primarily because we scrapped certain packaging materials as a result of the change of our Company's name. We did not record other loss for the six months ended 30 June 2014.

Finance costs

Finance costs decreased by RMB9.0 million, or 38.3%, from RMB23.5 million for the six months ended 30 June 2014 to RMB14.5 million for the six months ended 30 June 2015. The decrease was primarily due to our inclusion of the borrowings of Ruyuan HEC Pharma in our consolidated finance costs in the first half of 2014, whereas such borrowings were excluded from our consolidated finance costs during the first half of 2015, following our disposal of Ruyuan HEC Pharma in September 2014.

Profit before taxation

As a result of the aforesaid factors, our profit before taxation increased by RMB85.7 million, or 87.9%, from RMB97.5 million for the six months ended 30 June 2014 to RMB183.2 million for the six months ended 30 June 2015.

Income tax

Income tax expense increased by RMB14.5 million, or 94.2%, from RMB15.4 million for the six months ended 30 June 2014 to RMB29.9 million for the six months ended 30 June 2015. The increase was primarily due to an increase in profit before taxation. For the six months ended 30 June 2014 and 2015, our effective tax rate was 15.8% and 16.3%, respectively.

Profit for the period

As a result for the above factors, profit for the period increased by RMB71.1 million, or 86.6%, from RMB82.1 million for the six months ended 30 June 2014 to RMB153.2 million for the six months ended 30 June 2015.

Year ended 31 December 2014 compared with year ended 31 December 2013

Turnover

Our turnover increased by RMB124.5 million, or 39.3%, from RMB316.4 million in 2013 to RMB440.9 million in 2014, primarily due to increases in sales of anti-viral drugs from RMB75.4 million in 2013 to RMB199.4 million in 2014 and cardiovascular drugs from RMB98.3 million in 2013 to RMB106.2 million in 2014, the effects of which were partially offset by a decrease in turnover derived from sales of other products.

- *Anti-viral drugs*. Turnover derived from sales of anti-viral drugs increased by RMB124.0 million, or 164.4%, from RMB75.4 million in 2013 to RMB199.4 million in 2014, primarily due to our increasing efforts to conduct educational promotion activities for Kewei, which commenced in late 2013, and increased sales of Kewei in Guangdong and Hubei provinces as a result of certain favourable government policies issued by the local governments to affirm the effectiveness and usage of oseltamivir phosphate. For example, in a notice issued by the Health

Department of Guangdong province on 6 May 2013 in relation to medical guideline (trial) for medical institutions of Guangdong province on clinical use of neuraminidase inhibitor, it was confirmed that oseltamivir phosphate was a drug for regular treatment of influenza instead of a medicine only used for severe avian influenza. On 15 May 2013, the Health Department of Hubei province also issued a notice on medical guideline (trial) for medical institutions of Hubei province on clinical use of neuraminidase inhibitor, which clarified that oseltamivir phosphate was a drug for treating various types of influenza as a regular medicine and it was not categorised as national restricted or regulated drugs. Such clarification helped to educate doctors and other medical practitioners is to the effectiveness of oseltamivir phosphate which in turn substantially promoted the sales of our Kewei.

- *Cardiovascular drugs*. Turnover derived from sales of cardiovascular drugs increased by RMB7.9 million, or 8.0%, from RMB98.3 million in 2013 to RMB106.2 million in 2014, primarily due to increase in Oumeining, which was primarily due to increase in market volume and demand.

- *Endocrine and metabolic drugs*. Turnover derived from sales of endocrine and metabolic drugs increased by RMB7.0 million, or 27.4%, from RMB25.5 million in 2013 to RMB32.5 million in 2014, primarily due to increased sales volume of Ertongshu, which was primarily due to increased market volume and demand.

- *Other products*. Turnover derived from sales of other products decreased by RMB14.4 million, or 12.3%, from RMB117.2 million in 2013 to RMB102.8 million in 2014, primarily due to a decrease in turnover derived from sales in antibiotics, principally reflecting the effect of the national restriction on massive use of antibiotics since August 2012 when the Administrative Regulation on Clinical Use of Antibiotics (《抗菌藥物臨床應用管理辦法》) became effective, the effect of which were partially offset by an increase in turnover derived from sales of Xining, principally driven by an increase in its sales volume as market demand increased.

Cost of sales

Our cost of sales increased by RMB3.8 million, or 3.3%, from RMB116.0 million in 2013 to RMB119.8 million in 2014. The increase was primarily due to increases in royalty fee, labour cost and manufacturing overhead, the effects of which were partially offset by a decrease in the cost of materials.

- *Cost of materials.* Cost of materials decreased by RMB10.6 million, or 12.8%, from RMB83.1 million in 2013 to RMB72.5 million in 2014, primarily due to a lower unit cost of materials as a result of the change of our product mix, including our discontinued production of metronidazole API in 2014 which had a relatively higher unit cost, the effects of which were partially offset by an increase in our sales volume.

- *Royalty fee.* Royalty fee increased by RMB12.2 million, or 141.9%, from RMB8.6 million in 2013 to RMB20.8 million in 2014, primarily due to our increased turnover in relation to Kewei for 2014 as our royalty fee were calculated based on the turnover of our Kewei.

- *Labour cost*. Labour cost increased by RMB0.1 million, or 0.7%, from RMB13.6 million in 2013 to RMB13.7 million in 2014, which remained relatively stable.

- *Manufacturing overhead*. Manufacturing overhead increased by RMB2.1 million, or 19.8%, from RMB10.6 million in 2013 to RMB12.7 million in 2014, primarily due to increased sales volume of our products.

Gross profit

As a result of the foregoing, our gross profit increased by RMB120.6 million, or 60.1%, from RMB200.5 million in 2013 to RMB321.1 million in 2014. Our gross profit margin increased from 63.4% in 2013 to 72.8% in 2014, primarily due to a higher proportion of sales of our Kewei which had a relatively high gross profit margin.

Other revenue

Our other revenue decreased by RMB11.9 million, or 17.8%, from RMB66.7 million in 2013 to RMB54.8 million in 2014. The decrease was primarily due to decreases in income generated from research and development services provided to related parties and interest income from related parties as a result of the decreased average balance due from related parties.

Distribution costs

Distribution costs increased by RMB29.5 million, or 96.4%, from RMB30.6 million in 2013 to RMB60.1 million in 2014. The increase was primarily due to increases in marketing expenses for educational promotion activities for our Kewei and for sales of our other products in general. We changed our sales policy and commenced educational promotion activities for our Kewei products at the end of 2013, in order to promote the standardisation of treatment of influenza by our Kewei products. In 2014, we expanded our educational promotion activities across China with increased resources, including staff training, networking and publicity.

Administrative expenses

Administrative expenses decreased by RMB6.9 million, or 5.9%, from RMB117.2 million in 2013 to RMB110.3 million in 2014. The decrease was primarily due to the exclusion of Ruyuan HEC Pharma's administrative expenses for the last three months of 2014 from the consolidated administrative expenses following our disposal of Ruyuan HEC Pharma in September 2014.

Other net loss

Other net loss decreased by RMB0.2 million, or 84.2%, from RMB0.2 million in 2013 to RMB0.03 million in 2014. The decrease was primarily because we scrapped certain fixed assets in 2013.

Finance costs

Finance costs decreased by RMB6.6 million, or 13.5%, from RMB48.9 million in 2013 to RMB42.3 million in 2014. The decrease was primarily due to a decrease in the average balance of our bank borrowings.

Profit before taxation

As a result of the aforesaid factors, our profit before taxation increased by RMB92.9 million, or 132.3%, from RMB70.2 million in 2013 to RMB163.1 million in 2014.

Income tax

Income tax expense increased by RMB15.4 million, or 124.2%, from RMB12.4 million in 2013 to RMB27.8 million in 2014. The increase was primarily due to an increase in profit before taxation. In 2013 and 2014, our effective tax rate was 17.6% and 17.0%, respectively.

Profit for the year

As a result for the above factors, profit for the year increased by RMB77.5 million, or 134.1%, from RMB57.8 million in 2013 to RMB135.3 million in 2014.

Year ended 31 December 2013 compared with year ended 31 December 2012

Turnover

Our turnover increased by RMB47.2 million, or 17.5%, from RMB269.2 million in 2012 to RMB316.4 million in 2013, primarily due to increases in turnover derived from sales of anti-viral drugs from RMB13.5 million in 2012 to RMB75.4 million in 2013 and endocrine and metabolic drugs from RMB19.4 million in 2012 to RMB25.5 million in 2013, the effects of which were partially offset by a decrease in turnover derived from sales of other products.

- *Anti-viral drugs*. Turnover derived from sales of anti-viral drugs increased by RMB61.9 million, or 458.5%, from RMB13.5 million in 2012 to RMB75.4 million in 2013, primarily due to an increase in sales of Kewei, the effects of which were partially offset by a decrease in the sales of our ganciclovir injection products. The increase in sales of our Kewei products was primarily due to outbreak of influenza in Anhui, Jiangsu, Zhejiang, Shanghai and Guangdong provinces in 2013 which resulted in increased market demand and sales volume of our Kewei products. The decrease in sales of ganciclovir injection products was primarily due to our temporary suspension of the production of such products in 2013 as a result of our renovation of the relevant production line during the whole year of 2013.

- *Cardiovascular drugs*. Turnover derived from sales of cardiovascular drugs increased by RMB1.3 million, or 1.3%, from RMB97.0 million in 2012 to RMB98.3 million in 2013, primarily due to an increase in sales of Oumeining, the effects of

which were partially offset by a decrease in sales of Xinhaining. The increase in sales of Oumeining was primarily due to increased market demand. The decrease in sales of Xinhaining was primarily due to a decrease in the average selling price of such product as a result of our lower bid price in the centralised tender process in 2013.

- *Endocrine and metabolic drugs*. Turnover derived from sales of endocrine and metabolic drugs increased by RMB6.1 million, or 31.4%, from RMB19.4 million in 2012 to RMB25.5 million in 2013, primarily due to an increase in sales of Ertongshu, which was principally driven by increased market demand for such product as a result of enhanced awareness of metabolic diseases among doctors and patients and our expansion of distributor base to sell Ertongshu in 2013, as well as relatively less competition for this product category in the PRC.

- *Other products*. Turnover derived from sales of other products decreased by RMB22.1 million, or 15.9%, from RMB139.3 million in 2012 to RMB117.2 million in 2013, primarily due to a decrease in turnover derived from sales in antibiotics, principally driven by the Administrative Regulation on Clinical Use of Antibiotics (《抗菌藥物臨床應用管理辦法》) issued by MOH in April 2012 which became effective from August 2012.

Cost of sales

Our total cost of sales increased by RMB0.3 million, or 0.3%, from RMB115.7 million in 2012 to RMB116.0 million in 2013. The increase was primarily due to increases in royalty fee and labour cost, the effects of which were partially offset by a decrease in the cost of materials and manufacturing overhead.

- *Cost of materials.* Cost of materials decreased by RMB5.4 million, or 6.1%, from RMB88.5 million in 2012 to RMB83.1 million in 2013, primarily due to the change of our product mix, including our discontinued production of metronidazole (which requires higher cost of materials) in mid-2013. In addition, sales volume of products with a lower unit cost for materials increased.

- *Royalty fee.* Royalty fee increased by RMB7.6 million, or 760.0%, from RMB1.0 million in 2012 to RMB8.6 million in 2013, primarily due to of our increased sales turnover of Kewei in 2013.

- *Labour cost*. Labour cost increased by RMB3.3 million, or 32.0%, from RMB10.3 million in 2012 to RMB13.6 million in 2013, primarily due to an increase in the number of our employees directly involved in the production of our products (especially for production of Kewei), and a slight increase in the average salary we paid to such employees.

- *Manufacturing overhead*. Manufacturing overhead decreased by RMB5.3 million, or 33.3%, from RMB15.9 million in 2012 to RMB10.6 million in 2013, primarily due to our discontinued production for metronidazole (which incurred relatively higher manufacturing overhead compared to Kewei) in mid-2013, the effect of which was partially set off by the increased sales volume of Kewei.

Gross profit

As a result of the foregoing, our gross profit increased by RMB47.0 million, or 30.6%, from RMB153.5 million in 2012 to RMB200.5 million in 2013. Our gross profit margin increased from 57.0% in 2012 to 63.4% in 2013, primarily due to (i) a higher proportion of sales of Kewei, which had a high gross profit margin, and (ii) decreases in our unit cost of depreciation and unit labour cost.

Other revenue

Our other revenue increased by RMB26.0 million, or 63.9%, from RMB40.7 million in 2012 to RMB66.7 million in 2013. The increase was primarily due to increase in interest income received from related parties and research and development services income from related parties for providing staff, facilities and materials to support the research and development activities carried out by related parties.

Distribution costs

Distribution costs increased by RMB5.5 million, or 21.9%, from RMB25.1 million in 2012 to RMB30.6 million in 2013. The increase was primarily due to the commencement of educational promotion activities of Kewei in the second half of 2013 in various cities in China and an increase in marketing expenses to further expand our business.

Administrative expenses

Administrative expenses increased by RMB25.8 million, or 28.2%, from RMB91.4 million in 2012 to RMB117.2 million in 2013. The increase was primarily due to an increase in salary and welfare expenses as a result of increases in both the number of our administrative staff and the average salaries paid to such staff in 2013, and an increase in research and development expenses in relation to our future insulin products.

Other net loss

Other net loss increased by RMB0.2 million, or 3,266.7%, from RMB0.006 million in 2012 to RMB0.2 million in 2013. The increase was primarily due to disposal of scrapped fixed assets in 2013.

Finance costs

Finance costs increased by RMB2.0 million, or 4.3%, from RMB46.9 million in 2012 to RMB48.9 million in 2013. The increase was primarily due to an increase in the average balance of our bank borrowings.

Profit before taxation

As a result of the aforesaid factors, our profit before taxation increased by RMB39.5 million, or 128.7%, from RMB30.7 million in 2012 to RMB70.2 million in 2013.

Income tax

Income tax expense increased by RMB4.7 million, or 61.0%, from RMB7.7 million in 2012 to RMB12.4 million in 2013. The increase was primarily due to an increase in profit before taxation. Our effective tax rate decreased from 25.0% in 2012 to 17.6% in 2013, primarily reflecting a substantial increase in profit before taxation in 2013 of our Company which was subject to a 15% preferential tax rate, and a lower proportion taken by Ruyuan HEC Pharma's loss in the consolidated profit before taxation of the Group in 2013 when Ruyuan HEC Pharma was subject to 25% PRC statutory income tax rate.

Profit for the year

As a result for the above factors, profit for the year increased by RMB34.8 million, or 151.3%, from RMB23.0 million in 2012 to RMB57.8 million in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Source of Liquidity and Working Capital

We have historically met our working capital and other capital requirements principally from cash generated from operating activities and bank borrowings. As at 30 June 2015, we had cash and cash equivalents of RMB689.6 million, which consisted of cash at bank and in hand and were mainly denominated in Renminbi. As at 31 October 2015, we had bank loans of RMB350 million. We had also obtained unutilised lines of credit from banks in aggregate amount of RMB400 million as at the Latest Practicable Date.

Taking into account the net proceeds available to us from the Global Offering, our cash and future operating cash flows and our bank loans, our Directors are satisfied, after due and careful inquiry, that we have sufficient working capital to meet our working capital requirements for at least the next 12 months from the date of this prospectus. We currently do not expect any significant changes in the mix and the relative costs of our capital resources.

Cash Flows

The table below sets forth, for the periods indicated, a summary of our consolidated statements of cash flows.

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Net cash generated from operating activities	78,522	51,546	129,878	165,821	140,063
Net cash used in investing activities	(139,849)	(72,618)	(38,341)	(30,826)	(14,140)
Net cash generated from/ (used in) financing activities	16,754	22,203	(37,350)	(119,418)	477,171
Net (decrease)/increase in cash and cash equivalents	(44,573)	1,131	54,187	15,577	603,094
Cash and cash equivalents at 1 January	75,809	31,236	32,367	32,367	86,554
Cash and cash equivalents at 31 December/30 June	31,236	32,367	86,554	47,944	689,648

Net cash generated from operating activities

Our net cash generated from operating activities during the Track Record Period was principally from the receipt of payments from our sales. Our cash used in operating activities during the Track Record Period was principally for the purchases of materials, selling and distribution expenses, administrative expenses, research and development expenses and taxes.

We had net cash generated from operating activities of RMB140.1 million for the six months ended 30 June 2015, primarily resulting from profit before taxation of RMB183.2 million, as adjusted to primarily reflect additions due to finance costs of RMB14.5 million, depreciation of RMB12.8 million and impairment loss on trade and other receivables of RMB7.9 million, deduction of interest income of RMB1.3 million and the effects of movements in working capital. Movements in working capital mainly included (i) an increase in trade and other receivables of RMB123.4 million, primarily reflecting our increased sales in the first half of 2015, (ii) an increase in trade and other payables of RMB45.3 million, primarily reflecting an increase in purchase of materials due to our increased sales, and (iii) a decrease in inventories of RMB25.9 million, primarily reflecting our increased consumption of raw materials and APIs in our production process in the first half of 2015 in light of increased market demand for our products.

We had net cash generated from operating activities of RMB129.9 million in 2014, primarily resulting from profit before taxation of RMB163.1 million, as adjusted to primarily reflect additions due to finance costs of RMB42.3 million, depreciation of RMB31.9 million, deduction of interest income of RMB21.3 million, impairment loss on trade and other receivables of RMB2.8 million and the effects of movements in working capital. Movements in working capital mainly included (i) an increase in trade and other receivables of RMB84.8 million, primarily reflecting our increased sales in 2014, (ii) a decrease in inventories of RMB13.9 million, primarily reflecting our increased consumption of raw materials and APIs in our production process in 2014, and (iii) a decrease in trade and other payables of RMB1.1 million, primarily reflecting an increase in purchase of materials due to our increased sales in 2014.

We had net cash generated from operating activities of RMB51.5 million in 2013, primarily resulting from profit before taxation of RMB70.2 million, as adjusted to primarily reflect additions due to finance costs of RMB48.9 million, depreciation of RMB29.6 million, deduction due to interest income of RMB22.6 million, impairment loss on trade and other receivables of RMB2.5 million and the effects of movements in working capital. Movements in working capital mainly included (i) an increase in trade and other receivables of RMB67.5 million, primarily reflecting our increased sales in 2013, (ii) a decrease in trade and other payables of RMB14.3 million, primarily because we made a payment by issuing a bill instead of by cash and cash equivalent in 2012, and (iii) a decrease in inventories of RMB13.8 million, primarily reflecting our increased consumption of raw materials and API in our production process in 2013.

We had net cash generated from operating activities of RMB78.5 million in 2012, primarily resulting from profit before taxation of RMB30.7 million, as adjusted to primarily reflect finance costs of RMB46.9 million, depreciation of RMB25.2 million, interest income of RMB15.0 million and the effects of movements in working capital. Movements in working capital mainly included (i) a decrease in trade and other receivables of RMB12.7 million, primarily reflecting our preference to settle trade payments by cash and cash equivalent and to grant shorter maturities for bill payments, (ii) an increase in inventories of RMB9.1 million, primarily reflecting our anticipation of increased market demand and (iii) an increase in trade and other payables of RMB6.6 million, primarily reflecting increase in purchase of materials due to our increased sales in 2012.

Net cash used in investing activities

Our cash generated from investing activities during the Track Record Period mainly consisted of interest received from bank and proceeds received from disposal of property, plant and equipment. Our net cash used in investing activities during the Track Record Period mainly consisted of payment for purchase of property, plant and equipment.

We had net cash used in investing activities of RMB14.1 million for the six months ended 30 June 2015, primarily resulting from payment for purchase of property, plant and equipment of RMB15.5 million relating to installment payment for renovation of workshops for freeze-drying powder for injection and the last installment payment for the sanitisation facilities in the insulin factory, the effects of which were partially offset by interest received of RMB1.3 million.

We had net cash used in investing activities of RMB38.3 million in 2014, primarily resulting from (i) payment for purchase of property, plant and equipment of RMB35.5 million relating to installment payment for renovation of workshops for freeze-drying powder for injection and purchase of sanitisation facilities, cooling facilities, and auto-packaging machines for the new oral formulation workshops, and (ii) net cash outflow in respect of disposal of Ruyuan HEC Pharma of RMB3.2 million, the effects of which were partially offset by (i) interest received of RMB0.2 million, and (ii) proceeds received from disposal of property, plant and equipment of RMB0.1 million.

We had net cash used in investing activities of RMB72.6 million in 2013, primarily resulting from payment for purchase of property, plant and equipment of RMB76.4 million relating to renovation of workshops for freeze-drying powder for injection, purchase of equipment and facilities for the Company and Ruyuan HEC Pharma and construction of a new plant owned by Ruyuan HEC Pharma, the effects of which were partially offset by (i) proceeds received from disposal of property, plant and equipment of RMB3.3 million and (ii) interest received of RMB0.5 million.

We had net cash used in investing activities of RMB139.8 million in 2012, primarily resulting from payment for purchase of property, plant and equipment of RMB140.2 million relating to renovation of workshops for freeze-drying powder for injection, purchase of equipment and facilities for the Company and Ruyuan HEC Pharma and construction of a new plant owned by Ruyuan HEC Pharma, the effects of which were partially offset by (i) interest received of RMB0.3 million, and (ii) proceeds received from disposal of property, plant and equipment of RMB0.04 million.

Net cash generated from/(used in) financing activities

Our net cash generated from financing activities during the Track Record Period mainly consisted of bank loans we raised and advances to related parties. Our net cash used in financing activities during the Track Record Period mainly consisted of repayments of bank loans, repayment of advances to related parties and interest paid.

We had net cash generated from financing activities of RMB477.2 million for the six months ended 30 June 2015, primarily resulting from proceeds from issuance of shares and proceeds of bank loans, the effects of which were partially offset by repayments of bank loans and advances to related parties.

We had net cash used in financing activities of RMB37.4 million in 2014, primarily resulting from repayments of bank loans, the effects of which were partially offset by proceeds of bank loans and repayments of advances to related parties.

We had net cash generated from financing activities of RMB22.2 million in 2013, primarily resulting from proceeds of bank loans, the effects of which were partially offset by repayments of bank loans.

We had net cash generated from financing activities of RMB16.8 million in 2012, primarily resulting from proceeds of bank loans, the effects of which were partially offset by repayments of bank loans and advances to related parties.

Capital Expenditures

During the Track Record Period, our capital expenditures mainly related to additions of (i) properties, including workshops and plants, (ii) machinery and equipment, (iii) office equipment for our manufacturing and administrative purposes, (iv) motor vehicles, (v) construction in progress relating to our expansion of production capacity, and (vi) interest in leasehold land held for own use under operating lease.

The table below sets forth, for the periods indicated, our capital expenditures relating to additions of plant and buildings, machinery and equipment, office equipment, motor vehicles and construction in progress.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Plant and buildings	18,456	1,449	3,433	1,905
Machinery and equipment	12,018	5,809	2,896	2,091
Office equipment and others	11,057	5,224	5,098	999
Motor vehicles	–	52	–	–
Construction in progress	56,839	83,217	39,670	5,741
Sub-total	98,370	95,751	51,097	10,736
Interest in leasehold land held for own use under operating lease	17,514	–	–	–
Total	115,884	95,751	51,097	10,736

Our capital expenditures decreased from RMB115.9 million in 2012 to RMB95.8 million in 2013 and further decreased to RMB51.1 million in 2014, primarily reflecting the gradual completion of the new plant of Ruyuan HEC Pharma. Our capital expenditures decreased from RMB51.1 million in 2014 to RMB10.7 million for the six months ended 30 June 2015, primarily due to a decrease in construction in progress primarily reflecting our disposal of Ruyuan HEC Pharma in September 2014.

We estimate that our capital expenditures for the year ending 31 December 2015 will be RMB30.0 million, which will be primarily used to fund the construction of our new production lines for oral solid formulation at Yidu Base Area No. 1 and the construction of our AP1 production plant at Yidu Base Area No. 2. We intend to finance such capital expenditures with our existing cash and bank balances and cash flow generated from operating activities.

NET CURRENT ASSETS

The table below sets forth, as of the dates indicated, our current assets, current liabilities and net current assets.

	As at 31 December			As at 30 June	As at 31 October
	2012	2013	2014	2015	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Current assets					
Inventories	239,144	225,322	200,276	174,360	170,592
Trade and other receivables	430,470	599,319	166,415	289,012	237,569
Pledged deposits	25,000	–	25,000	3,000	11,077
Cash and cash equivalents	31,236	32,367	86,554	689,648	389,749
Current tax recoverable	4,814	2,555	–	–	–
Total current assets	730,664	859,563	478,245	1,156,020	808,987
Current liabilities					
Trade and other payables	308,319	287,981	162,682	158,314	98,529
Loans and borrowings	327,980	462,900	270,000	297,500	237,500
Deferred income	4,379	4,379	4,379	4,379	4,379
Current tax payable	–	–	8,929	17,792	6,419
Total current liabilities	640,678	755,260	445,990	477,985	346,827
Net current assets	89,986	104,303	32,255	678,035	462,160

Our net current assets increased from RMB32.3 million as at 31 December 2014 to RMB678.0 million as at 30 June 2015, primarily driven by an increase in cash and cash equivalents derived from the Pre-IPO Investment in 2015 and an increase in trade and other receivables. Our net current assets decreased from RMB104.3 million as at 31 December 2013 to RMB32.3 million as at 31 December 2014, primarily due to a decrease in trade and other receivables and an increase in current tax payable as a result of our disposal of Ruyuan HEC Pharma and declaration of dividends in 2014. Our net current assets an increased from RMB90.0 million as at 31 December 2012 to RMB104.3 million as at 31 December 2013, primarily due to an increase in trade and other receivables and a decrease in trade and other payables.

Our net current assets decreased from RMB678.0 million as at 30 June 2015 to RMB462.2 million as at 31 October 2015, being the latest practicable date for the purpose of our net current asset position. Our total current assets decreased from RMB1,156.0 million as at 30 June 2015 to RMB809.0 million as at 31 October 2015, primarily due to a decrease in cash and cash equivalents for payment of RMB290 million made to Sunshine Lake Pharma pursuant to the agreement in relation to yimitasvir phosphate and follow-up direct anti-viral agent compounds and a decrease in trade and other receivables, the effects of which were partially offset by an increase in pledged deposits to secure certain bills payable. Our total current liabilities decreased from RMB478.0 million as at 30 June 2015 to RMB346.8 million as at 31 October 2015, primarily reflecting decreases in trade and other payables, loans and borrowings (as we repaid certain short-term borrowings that were due) and current tax payable (as provisioning for income tax was made on a monthly basis while payment for income tax was made on a quarterly basis, and hence current tax payable as at 30 June 2015 included tax payable for April to June 2015, whereas current tax payable as at 31 October 2015 only included tax payable for October 2015).

Inventory

Our inventory primarily consists of raw materials for the manufacture of our products, work in progress and finished goods. In general, we manage our inventory by reference to our production target for a given period. Such production targets were set by reference to our estimation of the demand for our products. Accordingly, we believe that we effectively managed our inventories during the Track Record Period.

The table below sets forth, as of the dates indicated, our balance of inventory.

	As at 31 December			As at 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	221,757	200,679	175,426	134,801
Work in progress	9,939	10,636	7,714	11,257
Finished goods	7,448	14,007	17,136	28,302
Total	239,144	225,322	200,276	174,360

Our inventory decreased from RMB200.3 million as at 31 December 2014 to RMB174.4 million as at 30 June 2015, primarily reflecting a decrease in raw materials as we consumed raw materials more quickly in line with a larger production scale in the first half 2015, the effects of which were partially offset by an increase in work in progress and finished goods. This is due to an increase in production in anticipation of increased demand for our Kewei in the first half of 2015. The raw materials held in inventory are mainly raw materials that are used to produce oseltamivir phosphate API that were purchased in previous years, when oseltamivir phosphate was still a national reserve drug for treatment of severe influenza prior to 2013 and was often ordered by PRC government authorities and the military urgently for national pandemic control to produce Kewei if there was breakout of influenza in the PRC. As the number of suppliers of oseltamivir phosphate API in the PRC was limited, to ensure that we could manufacture oseltamivir phosphate in response to urgent orders from the PRC government and military, we typically maintained a reasonable level of inventory of raw materials used to produce oseltamivir phosphate API. In May 2013, favourable government policies were issued by local governments, such as the local government of Guangdong and Hubei provinces, to affirm the regular usage of oseltamivir phosphate. Our inventory decreased from RMB225.3 million as at 31 December 2013 to RMB200.3 million as at 31 December 2014, primarily reflecting decreases in raw materials and work in progress as we consumed more raw materials due to a larger production volume of Kewei in 2014, the effects of which were partially offset by an increase in finished goods, primarily due to our anticipation of increased market demand of Kewei in the first half of 2015. Our inventory decreased from RMB239.1 million as at 31 December 2012 to RMB225.3 million as at 31 December 2013, primarily reflecting a decrease in raw materials, the effects of which were partially offset by an increase in work in progress and finished goods, as we started to produce more Kewei and consumed more raw materials in 2013.

The table below sets forth, for the periods indicated, the average inventory turnover days.

	Year ended 31 December			Six months 30 June
	2012	2013	2014	2015
Average inventory turnover days[(1)]	318	268	176	89

Note:

(1) Average inventory turnover days are based on the average balance of inventory divided by turnover for the relevant period and multiplied by 365 days (181 days in the case of six months ended 30 June 2015) in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

Our average inventory turnover days decreased from 318 days in 2012 to 268 days in 2013, from 268 days in 2013 to 176 days in 2014, and further decreased from 176 days in 2014 to 89 days for the six months ended 30 June 2015, primarily due to increased sales volume of our Kewei year by year, and our improved raw materials inventory management practice.

Trade and Other Receivables

Our trade and other receivables consist of (i) trade receivables and bills receivable, primarily representing the balances due from our customers that are independent third parties, less allowance for doubtful debts, (ii) amounts due from related parties, primarily relating to inter-group loans, (iii) prepayments, primarily representing repayments for purchase of equipment and materials, and (iv) other receivables from third parties, primarily representing staff advance and the deductible value-added taxes arising from our purchases of machines and equipment.

The table below sets forth, as of the dates indicated, our trade and other receivables.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	44,027	66,213	112,940	246,827
Bills receivable	41,390	76,639	26,471	22,548
Less: allowance for doubtful debts	(2,650)	(3,916)	(6,283)	(14,132)
	82,767	138,936	133,128	255,243
Amounts due from related parties	323,487	427,638	26,689	29,040
Prepayments	5,971	6,707	3,558	2,344
Other receivables				
– third parties	18,245	26,038	3,040	2,385
Total	430,470	599,319	166,415	289,012

Our trade and other receivables increased from RMB166.4 million as at 31 December 2014 to RMB289.0 million as at 30 June 2015, primarily reflecting an increase in trade receivables due to substantial increase of sales in the first half of 2015. Our trade and other receivables decreased from RMB599.3 million as at 31 December 2013 to RMB166.4 million as at 31 December 2014, primarily reflecting decreases in inter-group loans to related parties (Please see "Financial Information – Amounts Due from (to) Related Parties"), bills receivable due to our decreased sales of metronidazole the distributors of which usually preferred to use bill payment and other receivables due to third parties, the effects of which were partially offset by an increase in trade receivables primarily reflecting our increased sales. Our trade and other receivables increased from RMB430.5 million as at 31 December 2012 to RMB599.3 million as at 31 December 2013, primarily reflecting increases in amounts due from related parties, trade and bills receivables due to our increased sales.

The table below sets forth, as of the dates indicated, an aged analysis of our trade receivables, net of allowance of doubtful debts, based on the respective invoice dates.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	73,706	121,682	100,505	215,292
More than 3 months but within 1 year	9,061	17,254	32,623	39,951
Total	82,767	138,936	133,128	255,243

We typically offer a credit period of 60 days to our customers, which may be reduced to 30 days or extended to 90 days on a case-by-case basis, depending on the reputation, historical credibility and our relationship with the relevant customers. For details of our credit policy to customers, please see "Business – Sales, Marketing and Distribution – Our distributor network".

As at 31 October 2015, we have subsequently settled RMB176.9 million, or 76.0%, of our outstanding trade receivables less allowance for doubtful debts as at 30 June 2015.

The table below sets forth, as of the dates indicated, movements in the allowance for doubtful debts.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	2,227	2,650	3,916	6,283
Impairment loss recognised	423	1,266	2,367	7,849
	2,650	3,916	6,283	14,132

Our management monitors the recoverability of overdue trade receivables and when there is objective evidence that we may not be able to collect any overdue trade receivables, we provide for impairment of these trade receivables. We, in accordance with the relevant accounting standards, recorded allowance for doubtful debts of RMB2.7 million, RMB3.9 million, RMB6.3 million and RMB14.1 million as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively, primarily representing overdue amounts from customers whose recovery was considered doubtful but not remote.

The reasons for the increase in impairment loss during the Track Record Period were mainly due to:

- as our turnover has increased during the Track Record Period, trade receivables with long aging and past due increased. With the risk of recoverability accumulated on the aged trade receivables, we have provided allowance for those aged balances; and

- as part of our strategy to optimise our distribution network, we have reduced the number of our distributors, such as those that may have a bad credit history. We have also impaired receivables from such distributors and thereby contributed to the increase in impairment loss.

The table below sets forth, as of the dates indicated, an aged analysis of our trade receivables that were past due but not individually or collectively considered to be impaired.

	As at 31 December			As at 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not past due	73,439	120,964	97,963	213,614
Less than 3 months past due	8,119	12,653	23,821	33,446
More than 3 months but within 1 year past due	1,113	4,182	9,008	7,213
Total[(1)]	82,671	137,799	130,792	254,273

Note:

(1) These figures exclude trade and bills receivables that were partially impaired, net of allowance of doubtful debts, which were RMB96,000, RMB1,137,000, RMB2,336,000 and RMB970,000 as at 31 December 2012, 2013, 2014 and as at 30 June 2015, respectively.

Trade receivables that were past due but not impaired relate to a number of customers that have a good track record with our Group. Based on past experience, our management believes that no impairment is necessary in respect of these balances, as there has not been any significant change in credit quality and the balances are still considered fully recoverable.

The table below sets forth, for the periods indicated, the average trade receivables turnover days.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
Average trade receivables turnover days[(1)]	55	64	74	85

Note:

(1) Average trade receivables turnover days are based on the average balance of trade receivables divided by turnover for the relevant period and multiplied by 365 days (181 days in the case of six months ended 30 June 2015) in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

In 2012, 2013, 2014 and the six months ended 30 June 2015, our average trade receivables turnover days was 55 days, 64 days, 74 days and 85 days. These increases primarily reflected our increased turnover and increased credit period granted to some of our major distributors with a larger amount of trade receivables. Since 2014, we have implemented a strategy of reducing the number of third-party distributors and thereby strengthening and optimising our distribution network aiming to directly sell our products to those distributors that are leaders in their respective geographic areas in China. Please see "Business – Sales, Marketing and Distribution – Our distributor network" for more details on our relationship with third-party distributors. To strengthen the cooperation relationship with our major distributors, we granted a more favourable credit period to these major distributors which had led to the increased average trade receivables turnover days during the Track Record Period.

Our average trade receivables turnover days during the Track Record Period are consistent with our general credit period offered to our customers (being 60 days, which may be reduced to 30 days or extended to 90 days on a case-by-case basis). We do not consider that the increase in the average trade receivables turnover days during the Track Record Period had a material adverse effect on our cash generated from our operating activities.

Trade and Other Payables

Our trade and other payables consist of (i) trade payables to our suppliers and service providers, primarily relating to our purchases of raw materials, packaging materials and machinery and equipment, construction of production facilities and transportation of products, (ii) bills payable, (iii) amount due to related parties, (iv) receipts in advance, primarily relating to prepayment received from customers, (v) VAT and other taxes payables, (vi) accrued payroll and benefits, and (vii) other payables and accruals.

The table below sets forth, as of the dates indicated, our trade and other payables.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	43,808	35,621	28,081	24,813
Bills payable	25,000	–	25,000	–
	68,808	35,621	53,081	24,813
Amount due to related parties	187,695	208,925	51,443	27,505
Receipts in advance	7,628	6,243	8,194	7,816
VAT and other taxes payable	3,664	5,981	7,077	15,870
Accrued payroll and benefits	7,061	9,557	12,313	9,236
Other payables and accruals	33,463	21,654	30,574	73,074
Total	308,319	287,981	162,682	158,314

Our trade and other payables decreased from RMB162.7 million as at 31 December 2014 to RMB158.3 million as at 30 June 2015, primarily reflecting the decreases in bills payable and amount due to related parties, the effects of which were partially offset by an increase in other payables and accruals (mainly including provisions for royalty fees and provisions for distribution costs). Our trade and other payables decreased from RMB288.0 million as at 31 December 2013 to RMB162.7 million as at 31 December 2014, primarily reflecting a decrease in amount due to related parties of Ruyuan HEC Pharma, a subsidiary which was disposed of by the Company in September 2014. Our trade and other payables decreased from RMB308.3 million as at 31 December 2012 to RMB288.0 million as at 31 December 2013, primarily because no bills was issued in 2013.

The table below sets forth, as of the dates indicated, an aged analysis of trade payables.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	34,524	24,449	20,729	19,795
Over 1 month but within 3 months	3,807	3,597	2,939	2,655
Over 3 months but within 1 year	3,213	5,027	2,151	171
Over 1 year	2,264	2,548	2,262	2,192
Total	43,808	35,621	28,081	24,813

Our trade payables are non-interest-bearing. During the Track Record Period, we were typically granted credit terms ranging from 30 to 60 days from our suppliers.

As of 31 October 2015, we have subsequently settled RMB17.4 million, or 70.2%, of our outstanding trade payables as at 30 June 2015.

The table below sets forth, for the periods indicated, the average trade payables turnover days.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
Average trade payables turnover days[(1)]	173	164	135	71

Note:

(1) Average trade payables turnover days are based on the average balance of trade and bills payables divided by cost of sale for the relevant period and multiplied by 365 days (181 days in the case of six months ended 30 June 2015) in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

For 2012, 2013, 2014 and the six months ended 30 June 2015, our average trade payable turnover days were 173 days, 164 days, 135 days and 71 days. The decrease primarily reflected our increased working capital as a result of our increased sales turnover and decrease in our use of bank acceptance bills received from our customers to settle payments with suppliers. During the Track Record Period, we did not default on any trade payables that would have a material adverse effect on our financial position.

Pledged Bank Deposits

Our pledged bank deposits are required primarily to secure certain bills payable. In particular, certain bills payable of our Group in 2012 and 2014 were secured by pledged deposits of RMB25.0 million and a bill payable issued by Yichang HEC Pharmaceutical to the Company was secured by pledged deposits of RMB3.0 million in 2015.

Amounts Due from (to) Related Parties

Amounts Due from Related Parties

As at 31 December 2012, 2013 and 2014 and 30 June 2015, our amounts due from related parties were RMB323.5 million, RMB427.6 million, RMB26.7 million and RMB29.0 million, respectively.

The following table sets forth, as of the dates indicated, a breakdown of our amounts due from related parties.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade related	–	333	6,000	1,191
Non-trade related	323,487	427,305	20,689	27,849
Total	323,487	427,638	26,689	29,040

The table below sets forth, as of the dates indicated, a breakdown of our non-trade amounts due from related parties by nature.

	For the year ended 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Inter-group loan	293,722	375,538	4,479	3,801
Research and development service	29,765	50,643	15,086	17,078
Sales of fixed assets	–	1,124	1,124	6,970
Total	323,487	427,305	20,689	27,849

During the Track Record Period, our trade related amounts due from related parties primarily related to purchase of APIs and packing materials. During the Track Record Period, our non-trade related amounts due from related parties primarily represented unsecured, interest bearing advances we made to related parties. Such inter-group loans were not subject to any fixed repayment terms. For the purpose of calculating interest payments, the balance at the end of each calendar month for each of the relevant related parties' accounts would be deemed as the principal of the inter-group loan for that month. The inter-group loans were subject to variable interest rates ranging from 5.4% to 6.6% during the Track Record Period.

Our amounts due from related parties increased from RMB323.5 million as at 31 December 2012 to RMB427.6 million as at 31 December 2013, primarily reflecting increased borrowings due from Parent Company and increased amount due from Dongguan HEC Research, a related party, for research and development services provided by our Group. Our amounts due from related parties decreased from RMB427.6 million as at 31 December 2013 to RMB26.7 million as at 31 December 2014, primarily because we declared dividends in 2014 which was set off with the amount due from Parent Company, the effects of which were partially offset by increased transaction amount in relation to our prepayment for purchase of boxes and instruction booklets from Shaoguan HEC Printing, a related party, reflecting our anticipation of increased sales of our products. Our amounts due from related parties as at 31 December 2014 and 30 June 2015 remained relatively stable.

Amounts Due to Related Parties

As at 31 December 2012, 2013 and 2014 and 30 June 2015, our amounts due to related parties were RMB187.7 million, RMB208.9 million, RMB51.4 million and RMB27.5 million, respectively.

The following table sets forth, as of the dates indicated, a breakdown of our amounts due to related parties.

	As at 31 December			As at 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade related	429	2,051	663	2,569
Non-trade related	187,266	206,874	50,780	24,936
Total	187,695	208,925	51,443	27,505

The following table sets forth, as of the dates indicated, a breakdown of non-trade amounts due to related parties by nature.

	For the year ended 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Inter-group loan	177,795	206,874	50,780	24,936
Purchase of fixed assets	9,471	–	–	–
Total	187,266	206,874	50,780	24,936

During the Track Record Period, our trade related amounts due to related parties primarily related to purchase of API, electricity, steam and packaging and printing services. During the Track Record Period, our non-trade related amounts due to related parties primarily represented unsecured, interest bearing advances made by related parties to us. For details, see Note 24 to the Accountants' Report as set out in Appendix I to this prospectus.

The significant amounts of inter-company loans between our Company and our related parties during the Track Record Period were due to the fact that, historically, our Company and affiliates of Shenzhen HEC Industrial would share cash resources with each other based on the operational needs of the relevant party. However, we did not provide any specific treasury function to Shenzhen HEC Industrial and its affiliates during the Track Record Period. As our Company began to prepare for Listing, we have reduced the amounts of our inter-company loans and we had discharged all inter-company loans with related parties before Listing.

Our amounts due to related parties increased from RMB187.7 million as at 31 December 2012 to RMB208.9 million as at 31 December 2013, primarily reflecting increased borrowings due to Yidu Hongshuo Trading Co., Ltd. ("Yidu Hongshuo") and amount due to Ruyuan Nanling Haoshanhaoshui Cosmetics Co., Ltd. ("Ruyuan Cosmetics") for facilities and equipment provided by Ruyuan HEC Pharma, the effects of which were partially offset by decreased transaction amount with Parent Company. Our amounts due to related parties decreased from RMB208.9 million as at 31 December 2013 to RMB51.4 million as at 31 December 2014, primarily reflecting decreased borrowings from Parent Company and Yidu Hongshuo and decreased transaction amount with Ruyuan Cosmetics as a result of our disposal of Ruyuan HEC Pharma in September 2014. Our amounts due to related parties decreased from RMB51.4 million as at 31 December 2014 to RMB27.5 million as at 30 June 2015, primarily due to decreased borrowings from Parent Company as we had discharged most of our inter-group loans in the first half of 2015, the effect of which were partially offset by the increased transaction amount with and borrowings from Dongguan HEC Research.

As mentioned above, we historically had inter-group loans with our related parties to facilitate the use of cash for production and operational needs. As advised by our PRC legal advisers, according to the Provisions of the Supreme People's Court on Several Issues

concerning the Application of Law in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) issued in August 2015 such inter-company loans between our Company and our related parties would not be regarded as a breach of the Loan Lending General Provisions in the PRC (《貸款通則》). We had discharged all the inter-company loans and all non-trade balances with related parties before Listing.

INDEBTEDNESS

During the Track Record Period, our indebtedness principally consisted of bank borrowings. The table below sets forth, as of the dates indicated, the maturity profiles of our bank borrowings.

	As at 31 December			As at 30 June	As at 31 October
	2012	2013	2014	2015	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*
Bank loans – current	327,980	462,900	270,000	297,500	237,500
Bank loans – non-current	339,980	338,270	145,000	122,500	112,500
Total	667,960	801,170	415,000	420,000	350,000

During the Track Record Period, all of our bank borrowings were denominated in Renminbi. As at 31 December 2012 and 2013, we had bank borrowings of RMB668.0 million and RMB801.2 million, respectively, of which RMB328.0 million and RMB462.9 million were all due within one year after the respective drawdown dates. As at 31 December 2014 and 30 June 2015, we had bank borrowings of RMB415.0 million and RMB420.0 million, respectively, of which RMB270 million and RMB297.5 million were due within one year after the respective drawdown dates, and RMB145.0 million and RMB122.5 million were due within five years after the respective drawdown dates. As at 31 October 2015, we had bank borrowings of RMB350.0 million, of which RMB237.5 million were due within one year after the respective drawdown dates, and RMB112.5 million were due within five years after the respective drawdown dates.

Our bank borrowings increased from RMB668.0 million as at 31 December 2012 to RMB801.2 million as at 31 December 2013, primarily due to loans granted to Ruyuan HEC Pharma for construction project of production facilities. Our bank borrowings decreased from RMB801.2 million as at 31 December 2013 to RMB415.0 million as at 31 December 2014, primarily because we did not account for the bank borrowings of Ruyuan HEC Pharma following our disposal of it in September 2014, and we made less borrowings due to our sufficient working capital in 2014. Our bank borrowings as at 31 December 2014 and 30 June 2015 remained relatively stable. Our bank borrowings carried variable interest rates in 2012, 2013, 2014 and for the six months ended 30 June 2015 of 6.6%, 6.5%, 6.2% and 5.4%, respectively and fixed interest rates of 6.3%, 6.0%, 6.4% and 6.4%, respectively.

During the Track Record Period, a portion of our bank loans were secured by certain buildings, machinery and interest in leasehold land held for own use under operating leases with an aggregate carrying amount of RMB246.9 million, RMB262.0 million, RMB116.0 million and RMB113.9 million as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively, and were guaranteed by certain related parties. All the securities and guarantees provided by us to our related parties will be released before the Listing.

During the Track Record Period, the proceeds of our bank borrowings were mainly used to pay for purchases of raw materials and machinery and equipment, and construction of new facilities for expansion of our operations. These bank borrowings contained borrower's undertakings customary for transactions of a similar type and nature. The Company and our borrowing subsidiaries are required, under the respective loan agreements, to repay principal and interest in accordance with the stipulated timelines. In addition, the Company and our borrowing subsidiaries are typically restricted from engaging in major corporate transactions, such as incurrence of substantial indebtedness, mergers and consolidations, disposal of substantial assets, reorganisation or restructurings without prior consent of or notification to the lenders. We are not aware of any incident involving our Company or any of our borrowing subsidiaries not having complied with all material undertakings during the Track Record Period and as at the Latest Practicable Date, under our bank borrowings, which gave rise to any actions taken by any bank lenders.

As at 31 October 2015, being the latest practicable date for determining our indebtedness, we had bank loans of RMB350 million. We had also obtained unutilised lines of credit from banks in aggregate amount of RMB400 million as at the Latest Practicable Date. Our Directors confirmed that there has not been any material change in our indebtedness since 31 October 2015 up to the date of this prospectus.

RELATED PARTY TRANSACTIONS

For a discussion of our related party transactions, "Financial Information – Net Current Assets – Amounts Due from (to) Related Parties", "Business – Raw Materials Procurement", and Notes 1 and 24 to the Accountants' Report as set out in Appendix I. Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and that all non-trade balances with, and securities and guarantees provided to related parties had been settled and released before the Listing. Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations or make our historical results not reflective in the Track Record Period.

COMMITMENTS

Capital Commitments

Our capital commitments during the Track Record Period primarily related to our purchase of machinery and equipment and construction of workshops for our production capacity expansion in China.

The table below sets forth, as of the dates indicated, our capital commitments.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– Contracted for	88,375	35,665	16,403	13,769

Our capital commitment decreased from RMB88.4 million as at 31 December 2012 to RMB35.7 million as at 31 December 2013 and further decreased to RMB16.4 million as at 31 December 2014, primarily reflecting our gradual completion of construction in relation to the production facilities of Ruyuan HEC Pharma year by year. Our capital commitment as at 30 June 2015 primarily related to the construction of our new production lines for oral solid formulation at Yidu Base Area No. 1.

Operating Lease Commitments

During the Track Record Period, we rented certain properties under operating lease arrangements in the PRC with a lease term of one year to be used as our representative sales offices. Such commitments amounted to approximately RMB0.2 million as at 30 June 2015.

CONTINGENT LIABILITIES

Our contingent liabilities during the Track Record Period primarily related to guarantees provided by us to two banks in respect of a joint bank facilities granted to our Company, certain related parties and a shareholder. All of such guarantees will be released prior to the Listing.

Except for the above, as at 31 December 2012, 2013, 2014 and 30 June 2015, we did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities, or any material covenants relating to outstanding debts, guarantees or other contingent liabilities. We confirm that as at the Latest Practicable Date, there have been no material changes to our contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not enter into any off-balance sheet transactions or arrangements.

SUBSEQUENT EVENTS

Agreement in relation to Yimitasvir Phosphate and Follow-up Direct Anti-viral Agent Compounds

On 22 July 2015, we entered into an agreement with Sunshine Lake Pharma, pursuant to which we acquired the right to use all the relevant technologies and patents relating to yimitasvir phosphate and follow-up direct anti-viral agent compounds worldwide and, upon obtaining the relevant government approvals and permits, the right to manufacture and sell yimitasvir phosphate products and follow-up direct anti-viral agent compounds worldwide, for a consideration of RMB700 million. Such RMB700 million consideration comprised a down payment of RMB250 million and eight milestone payments totalling RMB450 million payable upon each stage of development or approval of yimitasvir phosphate or the follow-up direct anti-viral agent compounds. Yimitasvir phosphate is anticipated to be a National Class 1.1 drug and the first anti-Hepatitis C direct antiviral agent (DAA) drug in the PRC wholly developed by a PRC company. Please see "Business – Future Products – Future anti-viral products – Future products relating to the treatment against Hepatitis C viral infections" for more details on yimitasvir phosphate.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

We are exposed to various types of financial risks in the ordinary course of our business, including interest rate risk, credit risk and liquidity risk.

Interest Rate Risk

Our interest rate risk mainly arises from loans and borrowings. Our exposure to the risk of changes in cash flow interest rate risk and fair value interest rate risk due to our borrowing obligations with floating interest rates and fixed interest rates respectively. In 2012, 2013 and 2014 and the six months ended 30 June 2015, if the borrowing interest rates had been 25 basis points higher/lower with all other variables held constant, our profit after tax and retained earnings for the relevant period would have been decrease/increase by approximately RMB765,000, RMB1,154,000, RMB351,000 and RMB255,000, respectively. Changes in interest rates would not have impact on other components of equity.

Credit Risk

We have policies in place to ensure credit terms are only granted to customers with appropriate credit history and have adopted credit evaluation procedures. In addition, we monitor our receivable balances and settlement for the due balances on an on-going basis.

The carrying amounts of each financial asset in the consolidated statements of financial position represent our maximum exposure to credit risk. Our exposure to credit risk is affected mainly by the individual characteristics of each customer rather than the industry or country in which the customer operates. As such, there may be significant concentrations of credit risk when we have significant exposure to individual customers.

Liquidity Risk

Liquidity risk arises when an enterprise encounters deficiency of funds in meeting obligations associated with financial liabilities. We regularly monitor our liquidity risk to ensure that we maintain sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term. Our Company and each subsidiary are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to board approval when the borrowings exceed certain predetermined levels of authority. For details of the maturity profile of our financial liabilities based on contractual undiscounted cash flows, Please see Note 21 to the Accountants' Report included in Appendix I to this prospectus.

DIVIDEND POLICY

For the year ended 31 December 2014, we declared and paid dividends in the amount of RMB390 million. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

Our Board is responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. Our Board may declare dividends in the future after taking into account our distributable profits, financial condition, cash flow, expected future capital expenditure, return to our Shareholders, capital requirements, finance costs, the external financing environment and any other factors that the Directors may deem relevant. Any declaration and payment, as well as the amount of, dividends will be subject to the requirements of our constitutional documents and the PRC Company Law. Under the PRC Company Law and our Articles of Association, dividends are distributed to our Shareholders in proportion to their shareholdings. We currently do not have a fixed pay-out ratio for future cash dividends. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into from time to time.

DISTRIBUTABLE RESERVES

The calculation of distributable profits for a company under PRC GAAP differs in a few respects from the calculation under IFRS. As a result, we may not be able to pay any dividends in a given year if we do not have distributable profits as determined under PRC GAAP, even if we have profits for that year as determined under IFRS, or vice versa.

Pursuant to our Articles of Association, following the Listing of our H Shares on the Stock Exchange, the amount of retained earnings available for distribution to our Shareholders shall be the lower of the amount determined in accordance with PRC GAAP and that determined in accordance with IFRS. As at 30 June 2015, our distributable reserves determined on this basis were the retained earnings of the Company under IFRS, which were RMB122.8 million.

LISTING EXPENSES

The estimated total listing expenses (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised and all discretionary incentive fees in the Global Offering are paid in full) in relation to the Global Offering are approximately RMB82.5 million, of which RMB20.9 million was or will be charged as other expenses to our consolidated statements of profit or loss and other comprehensive income and RMB61.6 million was or will be charged against equity. Pursuant to the Company's accounting policy, expenses that are incremental and directly attributable to the offering of new Shares are accounted for as a deduction from equity upon the Listing and issuance of new Shares. The expenses that do not relate to the offering of new Shares are charged to the consolidated statements of profit or loss and other comprehensive income as incurred. Expenses that relate jointly to the offering of new Shares and the listing of existing Shares are allocated between these activities based on the proportion of number of new Shares issued relative to the total number of Shares in issue and listed on the Stock Exchange.

For the six months ended 30 June 2015, we incurred listing expenses of RMB5.1 million.

KEY FINANCIAL RATIOS

The table below sets forth, as of the dates or for the periods indicated, certain financial ratios.

	Notes	Year ended 31 December/ As at 31 December 2012	2013	2014	Six months ended 30 June/ As at 30 June 2015
Liquidity ratios					
Current ratio (times)	*(1)*	1.1x	1.1x	1.1x	2.4x
Quick ratio (times)	*(2)*	0.8x	0.8x	0.6x	2.1x
Capital adequacy ratios					
Debt-to-equity ratio	*(3)*	151.2%	160.5%	118.5%	Net cash
Gearing ratio	*(4)*	158.6%	167.3%	149.7%	44.3%
Profitability ratios					
Return on total assets	*(5)*	1.7%	3.7%	10.4%	11.9%
Return on equity	*(6)*	5.6%	12.8%	35.8%	25.0%

Notes:

(1) Current ratio represents current assets as at a record date divided by current liabilities as at the same record date.

(2) Quick ratio represents current assets excluding inventories as at a record date divided by current liabilities as at the same record date.

(3) Debt-to-equity ratio represents total net debt (which is equal to total loans and borrowings less cash and cash equivalents) as at a record date divided by total equity as at the same record date.

(4) Gearing ratio represents total loans and borrowings as at a record date divided by total equity as at the same record date.

(5) Return on assets represents net profit for a period divided by the average assets as at the beginning and the end of such period. Figures for the six months ended 30 June 2015 have not been annualised.

(6) Return on equity represents net profit for a period divided by the average equity as at the beginning and the end of such period. Figures for the six months ended 30 June 2015 have not been annualised.

Liquidity Ratios

Our current ratio was 1.1x, 1.1x, 1.1x and 2.4x as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. The increase in our current ratio from 31 December 2014 to 30 June 2015 was mainly due to increased current assets as a result of the Pre-IPO Investment. Our current ratio remained stable as at 31 December 2012, 2013 and 2014.

Our quick ratio was 0.8x, 0.8x, 0.6x and 2.1x as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. The increase in our quick ratio from 31 December 2014 to 30 June 2015 was mainly due to increased current assets as a result of the Pre-IPO Investment. Our quick ratio as at 31 December 2012, 2013 and 2014 remained relatively stable.

Capital Adequacy Ratios

Our debt-to-equity ratio was 151.2%, 160.5% and 118.5% as at 31 December 2012, 2013 and 2014, respectively. We maintained a net cash position as at 30 June 2015, respectively. The substantial decrease in our debt-to-equity ratio from 31 December 2014 to 30 June 2015 was mainly due to the substantial increase in cash and cash equivalent derived from the Pre-IPO Investment. The decrease in our debt-to-equity ratio from 31 December 2013 to 31 December 2014 was mainly because we distributed dividends in 2014 which offset our borrowings due to the Parent Company and we did not account for the borrowings of Ruyuan HEC Pharma following our disposal of Ruyuan HEC Pharma in September 2014. The increase in our debt-to-equity ratio from 31 December 2012 to 31 December 2013 was mainly due to the increased borrowings of Ruyuan HEC Pharma which was under construction during that period.

Our gearing ratio was 158.6%, 167.3%, 149.7% and 44.3% as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. The substantial decrease in our gearing ratio from 31 December 2014 to 30 June 2015 was mainly due to the substantial increase in total equity resulting from the Pre-IPO Investment. The decrease in our gearing ratio from 31 December 2013 to 31 December 2014 was mainly because we distributed dividends in 2014 which offset our borrowings due to the Parent Company and we did not account for the borrowings of Ruyuan HEC Pharma following our disposal of Ruyuan HEC Pharma in September 2014. The increase in our gearing ratio from 31 December 2012 to 31 December 2013 was mainly due to the construction of the new plant of Ruyuan HEC Pharma which required substantial financing.

Profitability Ratios

We achieved a return on total assets of 1.7%, 3.7%, 10.4% and 11.9% for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. The increase in our return on total assets in 2014 was mainly due to an increase in our net profit from RMB57.8 million in 2013 to RMB135.3 million in 2014. The increase in our return on assets in 2013 was mainly due to an increase in our net profit from RMB23.0 million in 2012 to RMB57.8 million in 2013.

We achieved a return on equity of 5.6%, 12.8%, 35.8% and 25.0% for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. The increase in our return on equity in 2012, 2013 and 2014 were mainly due to rapid increase in our profits.

BUSINESS INTERRUPTION

There was no interruption in our business that may have or have had a significant effect on our financial position in the 12 months prior to the Latest Practicable Date.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of our Group since 30 June 2015.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

See Appendix II – "Unaudited Pro Forma Financial Information" for details.

OVERVIEW

In preparation for the Global Offering, our Company was converted into a foreign-invested joint stock company with limited liability under the PRC Company Law on 11 May 2015. Our Parent Company and North & South Brother Pharma were our Promoters and directly owned 75% and 25%, respectively, of our registered share capital upon establishment. Immediately upon completion of the Global Offering and assuming no exercise of the Over-allotment Option, Mr. Zhang and Ms. Guo, who is the spouse of Mr. Zhang and who takes instruction from Mr. Zhang when exercising her voting rights in our Parent Company, through our Parent Company, will collectively exercise the control over approximately 49.93% of our equity interest and therefore, Mr. Zhang and Ms. Guo constitute Controlling Shareholders pursuant to Rule 1.01 of the Listing Rules.

DELINEATION OF BUSINESS

Our ultimate Controlling Shareholder, Mr. Zhang, has diversified business interests in various industries in the PRC, including the manufacturing and supplying of pharmaceutical and aluminium products, new energy and electric materials. Mr. Zhang and Ms. Guo, through companies owned by them, indirectly control approximately 35.83% of the equity interests in Guangdong HEC Technology as at the Latest Practicable Date. Guangdong HEC Technology is a company listed on the Shanghai Stock Exchange and is mainly engaged in supplying of electric materials, new materials and new energy.

Our Controlling Shareholders carry out pharmaceutical businesses through our Parent Company and/or its subsidiaries, including our Group. Immediately upon completion of the Global Offering and assuming no exercise of the Over-allotment Option, our Parent Company will directly own 49.93% equity interest in our Company.

Our Parent Company and its subsidiaries (other than our Group) are principally engaged in the (i) research of biological drugs and new drugs, (ii) production and sale of various APIs, and (iii) production and sale of pharmaceutical products overseas.

Production and sale of APIs

The APIs produced and sold by the Parent Company does not overlap with, and cannot substitute, any of those APIs produced and sold by our Company, as they are used for the manufacturing of different pharmaceutical products. Although we purchase APIs from our connected persons, as set out greater detail in the "Connected Transactions" section of this prospectus, we do not manufacture such APIs ourselves, and such APIs are not for the manufacturing of our top five products. In addition, the APIs we manufacture are primarily for self-use, and are generally not for commercial sale. Accordingly, the Directors are of the view that the business of production and sale of APIs carried out by Our Parent Company does not compete with our business.

The businesses of production and sale of APIs are carried out by our Parent Company and Ruyuan HEC Pharma. Set out below is certain unaudited financial information of our Parent Company and Ruyuan HEC Pharma prepared under the PRC GAAP for the periods indicated.

(1) the Parent Company[1]

	Year ended 31 December			Six months ended 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	3,767,286	4,414,419	4,736,775	5,694,240
Revenue	1,575,757	1,708,447	1,629,823	835,138
Net Profit	213,828	171,092	426,960[2]	77,420

Notes:

(1) Our Parent Company only engages in the business of production and sale of APIs.

(2) The net profit for the year of 2014 includes the net profit of approximately RMB134,460,000 generated from the APIs business of our Parent Company and a dividend for an amount of RMB292,500,000 received by our Parent Company from us.

(2) Ruyuan HEC Pharma

	Year ended 31 December			Six months ended 30 June
	2012	**2013**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	311,470	384,540	492,867	585,729
Revenue	7,030	24,680	20,080	24,470
Net Profit	(15,950)	3,290	2,650	(2,222)

As the businesses of Ruyuan HEC Pharma are not inherently related to and do not compete with our business operation and that Ruyuan HEC Pharma was loss making, we entered into an equity transfer agreement with our Parent Company on 12 September 2014 pursuant to which we disposed of our entire equity interest in Ruyuan HEC Pharma to our Parent Company.

Production and sale of pharmaceutical products

Our Parent Company is also engaged in overseas production and sale of pharmaceutical products (other than API), while all of our Company's production and sale of pharmaceutical products (other than API) is located in the PRC. Certain pharmaceutical products sold overseas overlap with those produced and sold by our Company. Those overlapping products are Ciprofloxacin Hydrochloride Tablets, Clarithromycin Tablets and Levofloxacin Tablets.

However, as our Parent Company focuses on developing overseas market and only sells its pharmaceutical products to customers located overseas which is different from the Group's customers, while our Group focuses on domestic market and does not have overseas customers for our pharmaceutical products. Our Group currently does not intend to apply for registration or license with overseas regulatory authorities for sale of our pharmaceutical products in overseas markets, the Directors consider that Parent Company's overseas pharmaceutical products business will not compete with ours.

The businesses of production and overseas sale of pharmaceutical products are carried out by Sunshine Lake Pharma, a subsidiary of our Parent Company. Set out below is a table summarising certain unaudited financial information of Sunshine Lake Pharma prepared under the PRC GAAP for the periods indicated.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	433,740	621,244	1,126,749	993,751
Revenue	32,471	278,429	318,196	127,071
Net Profit	(82,862)	109,623	(8,308)	179,676

We have entered into the Strategic Cooperation Agreement with Shenzhen HEC Industrial. For details of the Strategic Cooperation Agreement, please see "Business – Research and Development – Strategic Framework Cooperation Agreement with Shenzhen HEC Industrial".

DIRECTORS' COMPETING INTERESTS

Other than certain directorships and/or positions held by some of our Directors in our Controlling Shareholders and/or its subsidiaries (other than our Group) which is further discussed below, the Directors have confirmed that they do not have any interests in any business which directly or indirectly competes or is likely to compete with our business as at the Latest Practicable Date.

NON-COMPETITION AGREEMENT AND UNDERTAKINGS

Non-Competition

We have entered into a non-competition agreement (the "**Non-Competition Agreement**") with our Controlling Shareholders, under which our Controlling Shareholders agreed not to, and to procure its subsidiaries (other than our Group) not to, compete with us in our businesses and granted us options to acquire the businesses of production and sale of APIs and overseas sale of pharmaceutical products operated by our Parent Company and/or its subsidiaries (other than our Group) (the "**Existing Businesses**") and certain future new business.

Our Controlling Shareholders have irrevocably undertaken in the Non-Competition Agreement that, during the term of the Non-Competition Agreement, they will not, and will also procure that their subsidiaries (other than our Group) not to, alone or with any other entity, in any form, directly or indirectly, engage in, participate in, assist or support a third party in the operation of any businesses that compete, or are likely to compete, with our businesses in the PRC.

The foregoing restrictions do not apply to the holding of securities in a company that is engaged in a competing business and whose securities are listed on any stock exchange, provided that our Controlling Shareholders and/or its subsidiaries do not hold or control in aggregate the voting rights in respect of 10% or more of the issued share capital of such company.

Options for New Business Opportunities

Our Controlling Shareholders have undertaken in the Non-Competition Agreement that:

(i) if our Controlling Shareholders become aware of a business opportunity which directly or indirectly competes, or may compete, with our businesses, our Controlling Shareholders will notify us in writing immediately upon becoming aware of such business opportunity and provide us with all information which is reasonably necessary for us to consider whether or not to engage in such business opportunity ("**Offer Notice**"). Our Controlling Shareholders are also obliged to use their best efforts to procure that such opportunity is first offered to us on terms that are fair and reasonable. We are entitled to decide whether or not to take up such business opportunity within 30 days from receiving the Offer Notice, subject to compliance with the applicable requirements under the Listing Rules.

(ii) our Controlling Shareholders shall procure any of their subsidiaries (other than our Group) to first offer to us any business opportunity which competes, or may compete with our businesses.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to take up a new business opportunity referred to by our Controlling Shareholders and/or their subsidiaries.

Options for Acquisitions

In relation to the Existing Businesses, our Controlling Shareholders have undertaken to grant us the option, pursuant to relevant laws and regulations, to purchase any equity interest, assets or other interests which form part/or all of the Existing Businesses, or to operate the Existing Business by way of, including but not limited to, management outsourcing, lease or subcontracting. However, if a third party has the pre-emptive rights in accordance with applicable PRC laws and regulations or a prior legally binding document (including but not limited to articles of association and shareholders' agreement), our options for acquisitions

shall be subject to such third party rights. In this case, our Controlling Shareholders will use its best efforts to procure the third party to waive its pre-emptive rights. As at the Latest Practicable Date, North & South Brother Pharma has pre-emptive rights if the Controlling Shareholders transfer part or all of the equity interests held in Sunshine Lake Pharma under the PRC Company Law. Save as disclosed above, no other third party has pre-emptive right over the Existing Businesses.

Our Controlling Shareholders shall procure any of their subsidiaries (other than our Group) to comply with the option granted to us by our Controlling Shareholders above.

The consideration shall be fair and reasonable and shall be determined following arm's length negotiation between the parties with reference to the mechanism and procedure provided by the applicable laws, rules and regulations.

Pre-emptive Rights

Our Controlling Shareholders have undertaken that, if it intends to transfer, sell, lease or license any of the following interests to a third party:

(i) Existing Businesses; and/or

(ii) any new business opportunity of our Controlling Shareholders referred to in the Non-Competition Agreement, which has been offered to, but has not been taken up by, the Company and has been retained by our Controlling Shareholders or any of their subsidiaries, which competes, or may lead to competition, directly or indirectly with our businesses.

The Group shall have pre-emptive right over these interests which can be exercised by the Group at any time for so long as the Non-Competition Agreement remains effective. Our Controlling Shareholders shall notify us by written notice ("**Selling Notice**") in advance. The Selling Notice shall attach the terms of the transfer, sale, lease or license and any information which may be reasonably required by the Company to make a decision. We shall reply to our Controlling Shareholders within 30 days after receiving the Selling Notice from our Controlling Shareholders. Our Controlling Shareholders have undertaken that until they receive the reply from the Company, they shall not notify any third party of the intention to transfer, sell, lease or license the business. If the Company decides not to exercise the pre-emptive rights or if the Company does not reply to the Controlling Shareholders within the agreed time period, our Controlling Shareholders is entitled to transfer, sell, lease or license the business to a third party pursuant to the terms stipulated in the Selling Notice.

Our Controlling Shareholders shall procure all of their subsidiaries (other than our Group) to comply with the above pre-emptive rights.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the pre-emptive rights, subject to compliance with the Listing Rules.

Our Controlling Shareholders' Further Undertaking

Our Controlling Shareholders further undertaken that:

(i) upon the request of our independent non-executive Directors, it will provide all information necessary for our independent non-executive Directors to review our Controlling Shareholders and their subsidiaries' compliance with and enforcement of the Non-Competition Agreement;

(ii) they will provide to our Company all information in respect of its compliance with the Non-Competition Agreement to enable us to disclose the decision made by our independent non-executive Directors in our annual report, or by way of announcement; and

(iii) they will make a declaration to confirm to our Company and our independent non-executive Director annually on their compliance with the Non-Competition Agreement in our annual report.

Corporate Governance Measures

Our Company will also adopt the following procedures to make sure that the undertakings under the Non-Competition Agreement are observed:

(i) we will provide our independent non-executive Directors with the Offer Notice on the new business opportunity referred to us by our Controlling Shareholders and Selling Notice (as the case may be) on pre-emptive rights within 7 days of receipt;

(ii) our independent non-executive Directors will review, on an annual basis, the compliance with the Non-competition Agreement by our Controlling Shareholders;

(iii) our Controlling Shareholders undertake to provide all information required by our Company which is necessary for the annual review by our independent non-executive Directors. Our independent non-executive Directors may engage professional advisors at our Company's cost for advice on matters relating to the Non-Competition Agreement;

(iv) our independent non-executive Directors will report their findings on the compliance by our Controlling Shareholders of the Non-Competition Agreement in our annual report; and

(v) the Directors consider that the independent non-executive Directors have sufficient experience in assessing whether or not to take up the new business opportunities or exercise the pre-emptive rights. In any event, as stated above, the independent non-executive Directors may appoint financial advisor or professional expert to provide advice, at the cost of the Company, in connection with the exercise or non-exercise of the option or pre-emptive right under the Non-Competition Agreement.

Further, any transaction that is proposed between our Company and the Controlling Shareholders will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

The Non-Competition Agreement will remain in full force and be terminated upon the earlier of:

(i) our Controlling Shareholders and their subsidiaries, directly or indirectly, holding less than 30% of our total share capital; or

(ii) our H Shares no longer being listed on the Stock Exchange or other internationally recognised stock exchanges.

Our PRC legal adviser is of the view that the Non-Competition Agreement and our Controlling Shareholders' undertakings pursuant to the Non-Competition Agreement are valid and binding obligations of our Controlling Shareholders under PRC law and may be enforced by us in the courts of the PRC when it is signed and come into force.

Based on: (a) the undertaking by our Controlling Shareholders that they will give a priority support to our development of the businesses, (b) the legally binding obligations of our Controlling Shareholders as set out in the Non-Competition Agreement and related grant of the options for new business opportunities and acquisitions and the pre-emptive rights, and (c) the information-sharing and other mechanisms in place as described above to monitor compliance by our Controlling Shareholders, the Directors are of the view that the Company has taken all appropriate and practicable steps to ensure compliance by our Controlling Shareholders with its obligations under the Non-Competition Agreement.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we can conduct our business independently from our Controlling Shareholders and its associates after the Global Offering.

Operational Independence

We are in possession of all production and operating facilities and technology relating to our businesses. Currently, we engage in our businesses independently, with the independent right to make operational decisions and implement such decisions. We have independent access to customers and suppliers and are not dependent on our Controlling Shareholders with respect to supplies for our business operations. Although, three of our top five suppliers are ours connected persons, the materials we purchased from our connected persons are readily available from Independent Third Parties. Please refer to "Business – Raw Materials Procurement" for more details. We have sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders.

We have our own organizational structure with independent departments, each with specific areas of responsibility. We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business. We have adopted protective measures to ensure the enforceability of the Non-Competition Agreement between the Company and our Controlling Shareholders. Please refer to the paragraph headed "Non-Competition Agreement" in this section for details. The Company has also adopted a set of corporate governance manuals, such as rules of the shareholders meeting, rules of the board meeting, and rules on the conduct of connected transactions, which are based on the relevant laws, rules and regulations.

Although we have entered or may enter into various transactions with the Controlling Shareholders, such as (i) potential acquisitions under the Strategic Cooperation Agreement, (ii) certain connected transactions (as set out in the "Connected Transactions" of this prospectus) as well as (iii) the arrangement with respect to the use of oseltamivir phosphate patents, we can still operate independently from our Controlling Shareholders on the ground that:

(i) with respect to the Strategic Cooperation Agreement, such potential acquisitions relate to products that do not form part of the Company's current businesses and which are not the main focus of the Company's current businesses. The Company does not rely on the research and development activity of HEC Research Group to carry out its current businesses. The Company uses its own staff to conduct the research and development activities for its existing product portfolio (other than Kewei and yimitasvir phosphate), and the Company also has the option to acquire new products from Independent Third Parties;

(ii) with respect to the continuing connected transactions, all raw materials the Company purchases from the Controlling Shareholders are readily available from Independent Third Parties, and the APIs that the Company purchases from the Controlling Shareholders do not relate to production of the Company's current top five products. In addition, all connected transactions are conducted on normal commercial terms and are fair and reasonable; and

(iii) with respect to the arrangement in relation to the use of oseltamivir phosphate patents, the execution of the agreement between Shenzhen HEC Industrial and the Oseltamivir Phosphate Licensor arose in the context of historical practice. Being the only platform for the Controlling Shareholder to carry out the business of production of Kewei, the Company manages all production and operating facilities and staff relating to such business independently from its Controlling Shareholders, and the relevant production permit for oseltamivir phosphate is in the name of the Company. In particular, the Oseltamivir Phosphate Licensor has confirmed in writing to the Company that, if necessary, it is willing to enter into the license agreement with the Company directly upon the expiry of the current license agreement.

Based on the above, the Directors are of the view that the Company operates independently from our Controlling Shareholders.

Financial Independence

Immediately following the Listing, our Company expects to retain certain loans (including the loans under the Syndicated Facility Agreement as described below) which are secured by guarantees provided by our Controlling Shareholders totalling approximately RMB220 million. Our Directors are of the view that our Company is financially independent from the Controlling Shareholders and the amount of the above mentioned loans will not affect our financial independence based on the following reasons:

- **Independent financial operation**: our Company has established a finance department which operates entirely and independently from the Controlling Shareholders with a team of independent financial staff. In addition, our Company has established a sound and independent financial system and makes financial decisions according to our Company's business needs, which are independent of its Controlling Shareholders;

- **Sufficient Capital and robust financial position**: we have sufficient capital (cash or equivalents) and banking facilities to operate our business independently, and have adequate internal resources and a strong credit profile to support our daily operations. As at 30 June 2015, our cash and cash equivalents amounted to RMB689.65 million.

- **Ability to secure financing independently**: our Company is able to secure financing based on its stand-alone credit. The Controlling Shareholders' guarantees arose in the context of common industry practice and the practice of a private company group in the PRC. Our Directors believe that key financial institutions in China, where the operations of our Company are mainly carried out, recognise the stand-alone credit of our Company and are willing to grant credit lines without financial assistance from the Controlling Shareholders. As at the Latest Practicable Date, our Company has independently negotiated and obtained unutilized lines of credit from banks in the aggregate amount of RMB400 million. The above unutilized banking facilities can be used by the Company to fund its working capital requirements as well as other business needs.

Pursuant to a syndicated facility agreement (the "**Syndicated Facility Agreement**") entered into between our Parent Company and its three subsidiaries (as the borrowers), and Bank of China, Shenzhen Branch and China Construction Bank, Sanxia Branch (as agents and principal lenders), as well as certain amendment agreements thereto, the lenders agree to provide a total commitment of RMB3,480 million to the borrowers. As at 30 September 2015, the balance of loan drawn down by the borrowers (other than us) and our Company amounted to approximately RMB1,808.5 million and RMB260 million, respectively. Among the RMB260 million loans drawn down by us, RMB140 million will become mature before Listing and will be repaid by us at their expiry. Under the Syndicated Facility Agreement, each borrower issued cross guarantees to the lenders with respect to such loan. The guarantee provided by our Company to the lenders in respect of the loan obligation of the Parent Company and its subsidiaries constitutes financial assistance provided by us to our connected persons. Such guarantee provided by our Company has been released as at the Latest Practicable Date.

In addition, we shall settle all amounts due to our Controlling Shareholders and related parties of non-trade nature prior to the Listing.

Management Independence

Our board of Directors consists of 9 Directors, five of whom are not associated with our Controlling Shareholders. Of these 9 Directors, 3 are independent non-executive Directors. Set out below is a table summarizing the positions held by the Directors at our Company and our Controlling Shareholders and/or its subsidiaries as at the Latest Practicable Date.

Name of Directors	Position with the Company	Position with our Controlling Shareholders or its associates as at the Latest Practicable Date
TANG Xinfa (唐新發)	Chairman and Non-executive Director	director of our Parent Company, Shenzhen HEC Industrial and certain subsidiaries of Shenzhen HEC Industrial
ZHU Yingwei (朱英偉)	Non-executive Director	director of certain subsidiaries of Shenzhen HEC Industrial
CHEN Yangui (陳燕桂)	Executive Director	supervisor of Ruyuan HEC Medical Instrument Co., Ltd. (乳源東陽光醫療器械有限公司) and director of Ruyuan HEC Pharma
MO Kit (毛杰)	Non-executive Director	director of Dongguan Bisheng Electric Co., Ltd. (東莞必勝電子有限公司) and Ruyuan Longwan Mechanic Co., Ltd. (乳源龍灣機械有限公司)

Apart from the above, each of the Company and our Controlling Shareholders is managed by different management personnel, none of our Directors or senior management holds any position or has any roles or responsibility in our Controlling Shareholders or their associates.

None of our independent non-executive Directors has any relationship with our Controlling Shareholders. Therefore, there are sufficient non-overlapping directors who are independent and have relevant experience to allow the proper functioning of the Board.

We believe that the Directors and senior management are able to perform their roles in the Company independently and the Company is capable of managing its business independently from our Controlling Shareholders after the Listing for the following reasons:

- the decision-making mechanism of the Board set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that in the event of conflict of interest, such as consideration of resolutions in relation to transactions with our Controlling Shareholders, the relevant Director(s) who are connected with our Controlling Shareholders shall abstain from voting and not be counted in the quorum. Further, when considering connected transactions, the independent non-executive Directors will review the relevant transactions;

- each of our Directors is aware of his or her fiduciary duties as a Director which requires, among others, that he or she acts for the benefit and in the best interests of us;

- we have appointed 3 independent non-executive Directors, comprising one-third of our Board, to provide a balance of the number of interested and independent Directors with a view to promoting the interests of the Company and our Shareholders as a whole. Directors who hold overlapping directorships with our Controlling Shareholders are considered to be in conflict and are required to abstain from voting in certain circumstances. The Articles of Association have stipulated circumstances under which the Directors would be considered to be in conflict, namely that for any contracts, transactions or arrangements where a Director or an associate of a Director is substantially interested, such person would be considered to be in conflict and is required to abstain from voting and not be counted in the quorum. For these purposes, the Directors who hold positions in our Controlling Shareholders are considered to be in conflict in respect of any contracts, transactions or arrangements with our Controlling Shareholders.

Based on the above, our Directors believe that the Company is capable of maintaining management independence from our Controlling Shareholders.

OVERVIEW

Prior to the Listing Date, we have entered into certain transactions with parties who will, upon the Listing, become connected persons of our Company and these transactions will continue following the Listing Date, and thereby constitute continuing connected transactions under the Listing Rules.

CONNECTED PERSONS

Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), our Parent Company will hold approximately 49.93% of the enlarged share capital of the Company, and will constitute a substantial Shareholder of the Company and therefore a connected person of our Group. Shenzhen HEC Industrial indirectly controls approximately 57.14% of the equity interest of our Parent Company. Therefore, Shenzhen HEC Industrial will constitute a connected person of our Group by virtue of being a holding company of our Parent Company upon the Listing.

ONE-OFF CONNECTED TRANSACTION

The following transaction was entered into between the Company and our Connected Person during the Track Record Period, which constituted a one-off connected transaction under Chapter 14A of the Listing Rules.

Project Contracting Agreement

Existing Contract and Description of the Transaction

Our Company entered into a project contracting agreement with Yidu Shanchengshuidu Project Construction Co., Ltd. (宜都山城水都建築工程有限公司) ("**Yidu Construction**"), a subsidiary of Shenzhen HEC Industrial on 15 August 2015, pursuant to which, our Company engaged Yidu Construction to provide project contracting service to construct our new API production plant of Yidu Base Area No. 2 with a site area of approximately 4,751 square meters. We have commenced construction in October 2015 and expect to complete the construction in early 2016. Details of the services received by us include: (i) procure materials required for the construction, such as soil, stone and other fills; (ii) construction and renovation services; (iii) manage the construction process and other services. The total consideration prescribed under the project contracting agreement is approximately RMB12,888,000.

Pricing Policy

We engaged Yidu Construction to provide project construction services to our Company for constructing our factories, buildings and other facilities as (i) Yidu Construction are more familiar with our business as compared to other Independent Third Parties. Leveraging on their better understanding on our business and through more efficient and effective communication, Yidu Construction can complete the project within a relatively shorter period; (ii) Yidu

Construction has extensive knowledge and experience in providing construction and project contracting services; and (iii) procuring relevant materials through an experienced service provider could help us obtain more favorable terms. The fees for the project contracting service under the existing project contracting agreement will be determined with reference to the Consumption Quota and Uniform Base Price Table for Construction Projects in Hubei Province (《湖北省建築工程消耗量定額及統一基價表》) issued by the Department of Housing and Urban-Rural Development of Hubei Province in 2008, which was updated in 2013. The Consumption Quota and Uniform Base Price Table provides pre-determined formulas for service fees calculation by setting out each category of fees to be charged and the formula for calculating the fees in different scenarios under each category.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Following the Listing Date, the following transactions will be regarded as continuing connected transactions exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.76 of the Listing Rules.

1. De Minimis Transactions

The following transactions are made in the ordinary course and usual course of business and on normal commercial terms where each of the relevant percentage ratios (other than the profit ratio) calculated for the purpose of Chapter 14A of the Listing Rules will, as our Directors currently expect, not exceed 0.1% on an annual basis. Accordingly, those transactions constitute de minimis continuing connected transactions under Rule 14A.76(1) of the Listing Rules, and are exempted from reporting, announcement, annual review and independent shareholders' approval requirements.

(1) Leasing Office Buildings to our Connected Person

During the Track Record Period, our Company entered into a leasing agreement with Yidu HEC Industrial Development Co., Ltd., a subsidiary of Shenzhen HEC Industrial, pursuant to which, our Company agreed to lease an office building owned by us to Yidu HEC Industrial Development Co., Ltd. as their office premises. The office building is located at Binjiang Road, Yidu, Hubei and with a total area of 1,535.17 square meters. The existing leasing agreement was entered into on 1 January 2015 for a term of three years.

Yidu HEC Industrial Development Co., Ltd.'s factory is located near our office building and it has started to use the premises of our Group since 2011. The rental was negotiated and agreed by the parties on an arm's length basis with reference to the market rental of similar properties in nearby areas.

(2) Trademark Licensing Agreement

Our Company has entered into a trademark licensing agreement with our Parent Company and Shenzhen HEC Industrial, pursuant to which, our Parent Company and Shenzhen HEC Industrial agreed to grant to us a non-exclusive license to use certain trademarks owned by them at nil consideration. For details of the licensed trademarks, please refer to "Appendix VI – Statutory and General Information – Intellectual Property Rights – Trademarks". Our Company used the trademark of the Controlling Shareholders on the prospectus cover. In addition, our Company used one trademark of the Controlling Shareholder on the packaging of our pharmaceutical products since July 2015 and prior to that our Company had been using our own trademarks on the packaging of our pharmaceutical products. Therefore, our Company has a proven trading record with our own brand and without using any of the Controlling Shareholders' trademarks. Our Company confirms that we do not rely on Controlling Shareholders' trademark for promotion of our products and did not make any public advertisements for any of our pharmaceutical products using Controlling Shareholders' trademark. The terms of the trademark licensing agreement is three years commencing from the Listing Date and may be renewed by agreement of all parties. The trademark licensing agreement includes irrevocable provisions on the part of our Parent Company and Shenzhen HEC Industrial and therefore, our Parent Company and Shenzhen HEC Industrial cannot terminate the rights granted in our favor without our prior consent and they have also irrevocably undertaken to us that they will renew the trademark licensing agreement with us after its expiry upon our request.

(3) Liquid Waste Processing Agreement

During the Track Record Period, our Company engaged the Parent Company to provide liquid waste processing service to our Company in relation to our API production facility of Yidu Base Area No. 2. The liquid waste processing facilities of our Parent Company has been put into operation since 2006. As our API manufacturing factory of Yidu Base Area No. 2 is located near the Parent Company's liquid waste processing facilities and it is commercially not advisable to construct new liquid waste processing facilities of our own given the relatively small volume of liquid waste generated by us each year and the large capital required for construction of new facilities, we expect to continue to engage our Parent Company to provide such service. The current liquid waste processing agreement was entered into on 15 August 2015 for a term of one year. Our Parent Company will only charge the service fees based on the actual cost incurred.

(4) Licence Agreement between Shenzhen HEC Industrial and the Oseltamivir Phosphate Licensor

Shenzhen HEC Industrial entered into a new licence agreement with Oseltamivir Phosphate Licensor in respect of the use of the relevant oseltamivir phosphate patents on 31 July 2015, pursuant to which, the benefits of the licence agreement are extended by Shenzhen HEC Industrial to our Company. This joint arrangement constitutes a connected transaction of our Company, although we did not enter into a separate agreement with Shenzhen HEC

Industrial to specifically regulate such extension of the benefit under the new license agreement to us. Such extension of benefits by Shenzhen HEC Industrial is at nil consideration. As Shenzhen HEC Industrial does not conduct any business relating to oseltamivir phosphate products and our Company is the only platform that manufacture and sell oseltamivir phosphate products, we settle the royalty fees under that licence agreement to Oseltamivir Phosphate Licensor directly. For details of the agreement, please see "Business – Our Products – Anti-viral products – Kewei (Oseltamivir phosphate) – Our relationship with Oseltamivir Phosphate Licensor".

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions are made in the ordinary course and usual course of business and on normal commercial terms where the highest applicable percentage ratio (other than the profit ratio) calculated for the purpose of Chapter 14A of the Listing Rules will be more than 0.1%, but less than 5% on an annual basis. Accordingly, those transactions are exempted from the independent shareholders' approval requirement but is subject to the reporting, announcement and annual review requirements pursuant to Rule 14A.76(2) of the Listing Rules.

1. Framework Energy Procurement Agreement

Description of the Transaction

Our Company has entered into a framework energy procurement agreement with Shenzhen HEC Industrial, pursuant to which, our Company may, from time to time, purchase electricity and steam from Shenzhen HEC Industrial and its subsidiaries. We purchase electricity and steam from our connected persons as their power plants are close to our manufacturing facilities and the transaction is on normal commercial terms. The framework energy procurement agreement will take effect upon Listing and be valid for a period of three years. Our manufacturing facilities based in Yidu started to use electricity supplied by Shenzhen HEC Industrial and/or its subsidiaries from the end of 2009, when their power plants were first put into operation. Before that, such electricity was purchased from grid companies. We purchase such electricity from our connected persons primarily due to the close proximity between their power plants and our manufacturing facilities. During the Track Record Period, our manufacturing facilities used the electricity supplied by grid companies when the power plants of our connected persons were under routine maintenance. The total fees for use of electricity supplied by grid companies when the power plants of our connected persons were under maintenance amounted to approximately nil (0), RMB16,000, RMB61,000, and nil (0), respectively. The average unit price charged by grid companies was approximately RMB0.5 per kWh. Although we did not purchase steam from other Independent Third Party, steam is supplied by a number of other independent local suppliers, including paper and cement manufactures located close to our factory which generate steam during their manufacturing processes.

Pricing Policy

The price for the electricity to be charged under the framework energy procurement agreement was determined with reference to the official written reply issued by Yidu Price Bureau (宜都市物價局) in response to the pricing enquiry of the electricity and steam submitted by Yichang HEC Power Plant Co., Ltd. in 2011 (the "**Reply**"), which provided the reference price of electricity of RMB0.383 per kWh. The price for the steam to be charged under the framework energy procurement agreement will be determined pursuant to the price range of RMB85 per ton to RMB135 per ton as prescribed by Yidu Price Bureau in the Reply.

Historical Figures

The total fees paid and payable by our Company to Shenzhen HEC Industrial and its subsidiaries (other than the Group) for electricity and steam for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 amounted to approximately RMB5,700,000, RMB5,852,000, RMB5,644,000 and RMB3,091,000, respectively.

Annual Caps for Future Transactions

The annual cap for each of the three years ended 31 December 2015, 2016 and 2017 will not exceed RMB7,256,000, RMB8,356,000 and RMB9,506,000, respectively.

Basis of Caps

When determining such annual caps, we have taken into account (i) the historical figures, (ii) the construction of new API production plant of Yidu Base Area No. 2, which is expected to be completed in early 2016 and which will lead to an increase in our demand for electricity of 2.4 million kWh and steam of 1,200 ton (approximately RMB1.1 million), and (iii) the construction of our new insulin production plant, which is expected to be completed in May 2017 and which will lead to an increase in our demand for electricity of 3 million kWh (approximately RMB1.15 million).

2. Framework Packaging and Chemical Materials Purchase Agreement

Description of the Transaction

Our Company has entered into a framework packaging and chemical materials purchase agreement with Shenzhen HEC Industrial for purchase of certain packaging and chemical materials from Shenzhen HEC Industrial and/or its associates (other than the Group) for the packaging and manufacturing of our pharmaceutical products. The arrangements under the framework packaging and chemical materials purchase agreement are on normal commercial terms and in the ordinary and usual course of business of the Company. The framework packaging and chemical materials purchase agreement will take effect upon Listing and be valid for a period of three years.

Pricing Policy

When selecting supplier of the packaging and chemical materials, our Company will obtain quotations from our connected person as well as from at least two independent third party suppliers. The price and terms offered by our connected person will be fair and reasonable and comparable to those offered by such independent third party suppliers. Our Directors believe that by requiring the price and terms offered by our connected person under this framework packaging and chemical materials purchase agreement to be comparable to two other independent third party suppliers, this will ensure that such price and terms will be on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

Historical Figures

The Group's total purchase expenses paid and payable to Shenzhen HEC Industrial and/or its associates (other than the Group) in relation to packaging and chemical materials for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 amounted to approximately RMB12,091,000, RMB12,656,000, RMB12,180,000 and RMB6,209,000, respectively.

Annual Caps for Future Transactions

The aggregate annual amount of purchase expenses of our Group under the framework packaging and chemical material purchase agreement for each of the year ended 31 December 2015, 2016 and 2017 will not exceed RMB14,276,000, RMB16,417,000 and RMB18,829,000, respectively.

Basis of Caps

When determining such annual caps, we have taken into account the historical figures and particularly, the expected increase in the sales volume of our pharmaceuticals which will bring further demand for packaging and chemical materials.

3. Framework API Purchase Agreement

Description of the Transaction

Our Company has entered into a framework API purchase agreement with Shenzhen HEC Industrial for the purchase of certain APIs from Shenzhen HEC Industrial and/or its subsidiaries (other than the Group) for the production of our pharmaceutical products, mainly azithromycin, clarithromycin and roxithromycin products. We purchased such APIs from our connected person because (i) we believe that the quality of the APIs provided by our connected person, who is one of the largest supplier in the market for the relevant APIs, is not inferior than those provided by other third party suppliers; (ii) the transportation of APIs would be more convenient as our connected person is in close proximity to us; and (iii) the price and terms

offered by our connected person are fair and reasonable and comparable to those offered by independent third party suppliers. The arrangements under the framework API purchase agreement are on normal commercial terms and in the ordinary and usual course of business of the Company. The framework API purchase agreement will take effect upon Listing and be valid for a period of three years.

Pricing Policy

When selecting supplier of the API, our Company will obtain quotations from our connected person as well as from at least two independent third party suppliers. As we are also engaged in manufacturing of pharmaceutical products industry, we are familiar with the market price of relevant APIs required for the production. The price and terms offered by our connected person will be fair and reasonable and comparable to those offered by such independent third party suppliers. Our Directors believe that by requiring the price and terms offered by our connected person under this framework API purchase agreement to be comparable to two other independent third party suppliers, this will ensure that such price and terms will be on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

Historical Figures

The Group's total purchase expenses paid and payable to Shenzhen HEC Industrial and/or its subsidiaries (other than the Group) in relation to APIs for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 amounted to approximately RMB34,872,000, RMB24,257,000, RMB19,642,000 and RMB9,205,000, respectively.

Annual Caps for Future Transactions

The aggregate annual amount of purchase expenses of our Group under the framework API purchase agreement for each of the year ended 31 December 2015, 2016 and 2017 will not exceed RMB19,000,000, RMB19,000,000 and RMB19,000,000, respectively.

Basis of Caps

When determining such annual caps, we have taken into account the historical figures and the future demand of our Group for those APIs to be purchased from Shenzhen HEC Industrial and/or its subsidiaries (other than the Group) (including projected sales volume of our pharmaceutical products). We currently expect to maintain relatively steady production volume for those pharmaceutical products which require the purchase of APIs from Shenzhen HEC Industrial and/or its subsidiaries (other than the Group).

WAIVER APPLICATION FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We expect that the non-exempt continuing connected transactions disclosed above will be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance with the announcement requirement under the Listing Rules would be impractical, unduly burdensome and would impose unnecessary administrative costs on our Company. Accordingly, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules once the Shares are listed on the Stock Exchange in respect of such non-exempt continuing connected transactions. We will, however, comply at all times with the other applicable provisions under Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transactions.

CONFIRMATION FROM DIRECTORS

Our Directors (including our independent non-executive Directors) are of the view that all the non-exempt continuing connected transactions have been entered into in the ordinary and usual course of business of the Company, are on normal commercial terms, fair and reasonable and in the interests of the Shareholders of the Company as a whole. The proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor has reviewed the relevant information and historical figures prepared and provided by the Company relating to the non-exempt continuing connected transactions described above, has conducted due diligence by discussing these transactions with the Company, and have obtained various representations and confirmation from the Company and Directors. Based on the Sole Sponsor's due diligence, the Sole Sponsor is of the view that: (i) the non-exempt continuing connected transactions described above have been entered into in the ordinary and usual course of business of the Company, are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the proposed annual caps (where applicable) of such non-exempt continuing connected transactions mentioned above are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

ISSUE SHARE CAPITAL

The following is a description of the share capital of the Company as at the Latest Practicable Date and immediately before the completion of the Global Offering:

As at the Latest Practicable Date

	Number of Shares	Approximate percentage of total
Domestic Shares	225,000,000 Shares of RMB1.00 each	62.4%
Unlisted foreign Shares(1)	135,527,450 Shares of RMB1.00 each	37.6%
Total share capital	**360,527,450**	**100.0%**

Note:

(1) The unlisted foreign Shares will be converted into H Shares, which will be listed on the Stock Exchange, upon completion of the Global Offering. According to the PRC Securities Law and our Articles of Association, the conversion of unlisted foreign Shares into H Shares requires the approval of our Shareholders in a general meeting and is subject to the approval of the CSRC. The conversion of unlisted foreign Shares into H Shares was approved by our Shareholders at a general meeting on 8 August 2015. We have also obtained the approvals of the CSRC in respect of such conversion on 24 September 2015. We have been advised by our PRC legal adviser, Jia Yuan Law Offices, having received the relevant approval from the CSRC for the conversion of unlisted foreign Shares into H Shares, such conversion is legal and valid under the PRC law.

Immediately after the Completion of the Global Offering (assuming the Over-allotment Option is not exercised)

	Number of Shares	Approximate percentage of total
Domestic Shares	225,000,000 Shares of RMB1.00 each	49.9%
H Shares converted from unlisted foreign Shares	135,527,450 H Shares of RMB1.00 each	30.1%
H Shares issued pursuant to the Global Offering	90,132,000 H Shares of RMB1.00 each	20.0%
Total share capital on completion of the Global Offering	**450,659,450**	**100.0%**

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering.

OUR SHARES

Our Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. H Shares may only be subscribed for and traded in Hong Kong dollars. Domestic Shares, on the other hand, may only be subscribed for and transferred in Renminbi. Apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for by or traded between legal or natural persons of the PRC. Domestic Shares, on the other hand, can only be subscribed for by and transferred between legal or natural persons of the PRC, qualified foreign institutional investors or qualified foreign strategic investors. We must pay all dividends in respect of H Shares in Hong Kong dollars and all dividends in respect of Domestic Shares in Renminbi.

Our Parent Company hold all existing Domestic Shares. The Shares held by our Parent Company and North and South Brother Pharma are promoter shares (as defined in the Company Law). Under the Company Law, promoter shares may not be sold within a period of one year from 11 May 2015, on which we were organized as a joint stock limited liability company. This lock-up period will expire on 10 May 2016. The Company Law further provides that in relation to the public share offering of a company, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing on any stock exchange. Upon the approval of the State Council or its authorized regulatory departments and with the consent of the Hong Kong Stock Exchange, the Domestic Shares may be converted into H Shares.

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our Shareholders, dispute resolution, registration of Shares in different parts of our register of Shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarized in Appendix V to this prospectus, our Domestic Shares and our H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time. Save for the Global Offering, we do not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months from the Listing Date. We have not approved any share issue plan other than the Global Offering.

CONVERSION OF OUR UNLISTED SHARES INTO H SHARES

Conversion of Unlisted Shares

We have two classes of ordinary shares, H Shares and Domestic Shares. Our Domestic Shares are unlisted Shares which are currently not listed or traded on any stock exchange. Upon completion of the Global Offering, all unlisted Shares are Domestic Shares held by our Parent Company and therefore, the scope of our unlisted Shares is the same as the scope of our Domestic Shares. The term "unlisted Shares" in this section is used to describe that the Domestic Shares are not listed on a stock exchange. Given the above, our PRC legal advisor, Jia Yuan Law Offices, has advised us that the use of the term "unlisted Shares" in this section to describe the term "Domestic Shares", which is used in the Articles of Association, does not contravene and are not inconsistent with any PRC laws and regulations (including the Special Regulations and Mandatory Provisions).

According to the stipulations by the State Council's securities regulatory authority and the Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required if any of our unlisted Shares are to be converted into and traded as H Shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on the H Share register. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No Shareholder voting by class is required for the listing and trading of the converted shares on an overseas stock exchange. Any application for listing of the converted shares on the Stock Exchange after our initial Listing is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

Mechanism and Procedure for Conversion

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant unlisted Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Shareholders holding unlisted Shares currently proposes to convert any of the unlisted Shares held by it into H Shares.

CONVERSION OF UNLISTED FOREIGN SHARERS HELD BY NORTH & SOUTH BROTHER PHARMA AND OUR PRE-IPO INVESTORS

Upon completion of the Global Offering, unlisted foreign Shares held by North & South Brother Pharma and our Pre-IPO Investors will be converted into H Shares on a one-for-one basis and will be listed for trading on the Stock Exchange.

TRANSFER OF SHARES ISSUED PRIOR TO LISTING DATE

The Company Law provides that in relation to the Hong Kong Public Offering of a company, the shares issued by a company prior to the Hong Kong Public Offering shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange. Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date.

REGISTRATION OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 Business Days upon listing.

So far as our Directors are aware, assuming no exercise of the Over-allotment Option, the following persons will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held	Approximately percentage of interest in the relevant class of Shares after the Global Offering (assuming over-allotment option is not exercised)	Approximately percentage of interest in the total share capital of the Company after the Global Offering (assuming over-allotment option is not exercised)
Parent Company	Beneficial owner	Domestic Shares	225,000,000	100%	49.9%
Linzhi HEC Pharmaceutical Investment[(1)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Shenzhen HEC Industrial[(2)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.[(3)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.[(4)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Mr. Zhang[(5)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Ms. Guo[(6)(7)]	Interest of spouse	Domestic Shares	225,000,000	100%	49.9%
North & South Brother Pharma	Beneficial owner	H Shares	75,000,000	33.2%	16.6%

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held	Approximately percentage of interest in the relevant class of Shares after the Global Offering (assuming over-allotment option is not exercised)	Approximately percentage of interest in the total share capital of the Company after the Global Offering (assuming over-allotment option is not exercised)
North & South Brother Investment Holdings Limited[8]	Interest of controlled corporation	H Shares	75,000,000	33.2%	16.6%
Mr. Mo Kit[9]	Interest of controlled corporation	H Shares	75,000,000	33.2%	16.6%
Ample Market Investment Limited	Beneficial owner	H Shares	23,847,914	10.6%	5.3%
Silver Knight Investment Ltd. (Cayman)[10]	Interest of controlled corporation	H Shares	23,847,914	10.6%	5.3%
New Horizon Master IV Investment Ltd. (Cayman)[11]	Interest of controlled corporation	H Shares	23,847,914	10.6%	5.3%
Apsif Investment Ptd Ltd[12]	Interest of controlled corporation	H Shares	23,847,914	10.6%	5.3%
Champion Zone Investment Limited	Beneficial owner	H Shares	11,959,765	5.3%	2.7%
Kingsley Investment Ltd. (Cayman)[13]	Interest of controlled corporation	H Shares	11,959,765	5.3%	2.7%
Raisson Capital. L.P. (Cayman)[14]	Interest of controlled corporation	H Shares	11,959,765	5.3%	2.7%

Notes:

(1) As at the Latest Practicable Date, Linzhi HEC Pharmaceutical Investment owned 44.63% equity interest in our Parent Company, therefore Linzhi HEC Pharmaceutical Investment is deemed to be interested in the Shares held by our Parent Company.

(2) As at the Latest Practicable Date, Shenzhen HEC Industrial owned 100% equity interest in Linzhi HEC Pharmaceutical Investment, therefore Shenzhen HEC Industrial is deemed to be interested in the Shares which are interested by Linzhi HEC Pharmaceutical Investment.

(3) As at the Latest Practicable Date, Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. owned 58% equity interest in Shenzhen HEC Industrial, therefore Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial.

(4) As at the Latest Practicable Date, Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. owned 42% equity interest in Shenzhen HEC Industrial, therefore Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial.

(5) As at the Latest Practicable Date, Mr. Zhang owned 99.69% equity interest in Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd., therefore Mr. Zhang is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd..

(6) As at the Latest Practicable Date, Ms. Guo owned 99.51% equity interest in Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd., therefore Ms. Guo is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd..

(7) As at the Latest Practicable Date, Ms. Guo is the spouse of Mr. Zhang and is deemed to be interested in the Shares which are interested by Mr. Zhang under the SFO.

(8) As at the Latest Practicable Date, North & South Brother Investment Holdings Limited owned 100% equity interest in North & South Brother Pharma and is deemed to be interested in the Shares which are interested by North & South Brother Pharma.

(9) As at the Latest Practicable Date, Mr. Mo Kit owned 100% equity interest in North & South Brother Investment Holdings Limited and is deemed to be interested in the Shares which are interested by North & South Brother Investment Holdings Limited.

(10) As at the Latest Practicable Date, Silver Knight Investment Ltd. (Cayman) owned 100% equity interest in Ample Market Investment Limited and is deemed to be interested in the Shares which are interested by Ample Market Investment Limited.

(11) As at the Latest Practicable Date, New Horizon Master IV Investment Ltd. (Cayman) owned 45% equity interest in Silver Knight Investment Ltd. (Cayman) and is deemed to be interested in the Shares which are interested by Silver Knight Investment Ltd. (Cayman).

(12) As at the Latest Practicable Date, Apsif Investment Ptd Ltd owned 50.2% equity interest in Silver Knight Investment Ltd. (Cayman) and is deemed to be interested in the Shares which are interested by Silver Knight Investment Ltd. (Cayman).

(13) As at the Latest Practicable Date, Kingsley Investment Ltd. (Cayman) owned 100% equity interest in Champion Zone Investment Limited and is deemed to be interested in the Shares which are interested by Champion Zone Investment Limited.

(14) As at the Latest Practicable Date, Raisson Capital L.P. (Cayman) owned 100% equity interest in Kingsley Investment Ltd. (Cayman) and is deemed to be interested in the Shares which are interested by Kingsley Investment Ltd. (Cayman).

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with certain investors (the "**Cornerstone Investors**", each a "**Cornerstone Investor**"), pursuant to which the Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 200 H Shares, subject to the determination by the Company and the Joint Global Coordinators) that may be purchased for an aggregate amount of approximately HK$620.3 million (the "**Cornerstone Placing**"). Assuming an Offer Price of HK$13.70 (being the low end of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 45,280,200, representing approximately (i) 9.8% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised; or (ii) 10.0% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$16.10 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 38,530,200, representing approximately (i) 8.3% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is fully exercised; or (ii) 8.5% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$18.50 (being the high end of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 33,531,400, representing approximately (i) 7.2% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is fully exercised; or (ii) 7.4% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The table below sets out the total number of H Shares the Cornerstone Investors would subscribe for in aggregate and the respective approximate percentages it represents of (i) the International Offer Shares; (ii) the Offer Shares; (iii) the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised); and (iv) the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is exercised in full):

	Total number of H Shares to be subscribed for by the Cornerstone Investors (rounded down to the nearest whole board lot of 200 H Shares)	**Approximate percentages of the International Offer Shares (assuming that the Over-allotment Option is not exercised)**	**Approximate percentages of the Offer Shares (assuming that the Over-allotment Option is not exercised)**	**Approximate percentages of the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised)**	**Approximate percentages of the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is exercised in full)**
Assuming an Offer Price of HK$13.70 (being the low end of the indicative Offer Price range stated in this prospectus)	45,280,200	55.8%	50.2%	10.0%	9.8%
Assuming an Offer Price of HK$16.10 (being the mid-point of the indicative Offer Price range stated in this prospectus)	38,530,200	47.5%	42.7%	8.5%	8.3%
Assuming an Offer Price of HK$18.50 (being the high end of the indicative Offer Price range stated in this prospectus)	33,531,400	41.3%	37.2%	7.4%	7.2%

Each of the Cornerstone Investors or their respective affiliates is an Independent Third Party, not our connected person, and not an existing Shareholder. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by our Company on or around 28 December 2015.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank pari passu in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company. None of the Cornerstone Investors will subscribe for any Offer Shares under the Global Offering other than pursuant to the respective cornerstone investment agreements. Upon completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become our substantial shareholder. The Cornerstone Investors do not have any preferential rights under the respective cornerstone investment agreements compared with other public Shareholders. The number of Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in the section headed "Structure of the Global Offering – The Hong Kong Public Offering". The Shares to be subscribed by our Cornerstone Investors will be counted to the public float of the Company.

OUR CORNERSTONE INVESTORS

We have entered into cornerstone investment agreements with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The information about each of the Cornerstone Investors set forth below has been provided by that Cornerstone Investor in connection with the Cornerstone Placing:

Ally Bridge Sunshine

Ally Bridge LB – Sunshine Limited ("**Ally Bridge Sunshine**") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of HK$139.68 million (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) at the Offer Price. Assuming an Offer Price of HK$13.70, being the low end of the indicative Offer Price range set out in this prospectus, the total number of H Shares that Ally Bridge Sunshine would subscribe for would be 10,195,600, representing approximately 2.3% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$16.10, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H Shares that Ally Bridge Sunshine would subscribe for would be 8,675,600, representing approximately 1.9% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$18.50, being the high end of the indicative Offer Price range set out in this prospectus, the total number of H Shares that Ally Bridge Sunshine would subscribe for would be 7,550,200, representing approximately 1.7% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Ally Bridge Sunshine is an exempted company incorporated with limited liability in the British Virgin Islands. It is managed by Ally Bridge LB Management Limited. Ally Bridge Sunshine is controlled by Ally Bridge LB Healthcare Master Fund Limited ("**Ally Bridge LB**"). Ally Bridge LB specialises in investing in the public securities in the healthcare sector and making pre-IPO investments in the Asia Pacific (primarily Greater China).

China Southern Dragon Dynamic Fund

China Southern Dragon Dynamic Fund ("**CSDD Fund**") on behalf of China New Balance Opportunity Fund ("**CNBO Fund**") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$10 million (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) at the Offer Price. Assuming an Offer Price of HK$13.70, being the low end of the indicative Offer Price range set out in this prospectus, the total number of H Shares that CSDD Fund would subscribe for would be 5,658,800, representing approximately 1.3% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$16.10, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H Shares that CSDD Fund would subscribe for would be 4,815,200, representing approximately 1.1% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$18.50, being the high end of the indicative Offer Price range set out in this prospectus, the total number of H Shares that CSDD Fund would subscribe for would be 4,190,400, representing approximately 0.9% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised.

CSDD Fund is a company incorporated in Luxembourg whose principal activities include asset management. CNBO Fund is a sub-fund of CSDD Fund. CNBO Fund is an investment fund managed by CSOP Asset Management Limited ("**CSOP**"). CSOP was established in 2008 as a subsidiary of China Southern Asset Management Co., Ltd.. With a focus on China investments, CSOP manages private and public funds, as well as providing investment advisory services to Asian and global investors.

Pinpoint Asset Management

Pinpoint Asset Management Ltd ("**Pinpoint Asset Management**") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$22 million (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) at the Offer Price. Assuming an Offer Price of HK$13.70, being the low end of the indicative Offer Price range set out in this prospectus, the total number of H Shares that Pinpoint Asset Management would subscribe for would be 12,449,400, representing approximately 2.8% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$16.10, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H Shares that Pinpoint Asset Management would subscribe for would be 10,593,600, representing approximately 2.4% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$18.50, being the high end of the indicative Offer Price range set out in this prospectus, the total number of H Shares that Pinpoint Asset Management would subscribe for would be 9,219,200, representing approximately 2.0% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Pinpoint Asset Management is a limited liability company incorporated in Hong Kong on 4 June 2010. It is an independent investment research and management company that provides active asset management services to institutional investors, pension funds, private banking, fund of funds, family offices and high net worth individuals. It is licensed to conduct type 9 (asset management) regulated activities as defined under the SFO by the SFC. It is ultimately controlled by Mr. Wang Qiang and Ms. Bao Jiarong. Pinpoint Asset Management is the investment manager of Pinpoint China Fund and Pinpoint Multi-Strategy Fund, which are exempted companies incorporated in the Cayman Islands.

Sanxing Electric

Sanxing Electric (Hong Kong) Company Limited ("**Sanxing Electric**") has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 200 H Shares) which may be purchased with an aggregate amount of US$30 million (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) at the Offer Price. Assuming an Offer Price of HK$13.70, being the low end of the indicative Offer Price range set out in this prospectus, the total number of H Shares that Sanxing Electric would subscribe for would be 16,976,400, representing approximately 3.8% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$16.10, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of H Shares that Sanxing Electric would subscribe for would be 14,445,800, representing approximately 3.2% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK$18.50, being the high end of the indicative Offer Price range set out in this prospectus, the total number of H Shares that Sanxing Electric would subscribe for would be 12,571,600, representing approximately 2.8% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Sanxing Electric is a company incorporated in Hong Kong and a wholly-owned subsidiary of Ningbo Sanxing Medical Electric Co., Ltd.. It is dedicated to becoming a leading healthcare service investment and management group in China.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

(1) the Hong Kong Underwriting Agreement and the International Purchase Agreement having been entered into and having become effective and unconditional and not having been terminated (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in those underwriting or purchase agreements; and

(2) the Listing Committee having granted the listing of, and permission to deal in, the H Shares and such approval not having been revoked.

RESTRICTIONS ON DISPOSAL OF H SHARES BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, it will not, and will cause its affiliates (as defined in the relevant cornerstone investment agreement) not to, whether directly or indirectly, at any time during the period of six months starting from and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment agreement) any H Shares subscribed for by it pursuant to the relevant cornerstone investment agreement (or any interest in any company or entity holding any H Shares), or agree or contract to or publicly announce any intention to enter into any such transaction, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of such Cornerstone Investor (provided that, among other things, such wholly-owned subsidiary undertakes in writing to be, and such Cornerstone Investor undertakes in writing prior to such transfer to procure such subsidiary to be, bound by the Cornerstone Investor's obligations under the relevant cornerstone investment agreement).

DIRECTORS

Our Board is responsible for and has general powers over the management and operation of our business. Our Board consists of nine Directors, comprising three executive Directors, three non-executive Directors and three independent non-executive Directors. The following table sets forth certain information about our Directors:

Name	Age	Date of joining our Group	Date of appointment	Position	Responsibility
Mr. TANG Xinfa (唐新發)	45	4 May 2015	4 May 2015	Chairman and non-executive Director	Long-term strategy and major decision-making
Mr. ZHU Yingwei (朱英偉)	44	8 August 2001	8 August 2001	Non-executive Director	Providing strategic advice and guidance on the business development of our Group
Mr. JIANG Juncai (蔣均才)	33	4 May 2015	4 May 2015	Executive Director	Formulating the general development strategy and the business planning of our Group
Mr. WANG Danjin (王丹津)	45	27 February 2006	27 February 2006	Executive Director	Formulating the general development strategy and the business planning of our Group
Mr. MO Kit (毛杰)	64	4 May 2015	4 May 2015	Non-executive Director	Providing strategic advice and guidance on the business development of our Group
Mr. CHEN Yangui (陳燕桂)	34	1 May 2014	4 May 2015	Executive Director	Formulating the general development strategy and the business planning of our Group

Name	Age	Date of joining our Group	Date of appointment	Position	Responsibility
Mr. TANG Jianxin (唐建新)	49	4 May 2015	4 May 2015	Independent non-executive Director	Audit supervision, reviewing and supervising the formulation of remuneration and appraisal policies for Directors, Supervisors and senior management
Mr. FU Hailiang (付海亮)	44	4 May 2015	4 May 2015	Independent non-executive Director	Reviewing and supervising the formulation of remuneration, appraisal and nomination policies for Directors, Supervisors and senior management
Mr. LEE Chi Ming (李志明)	62	4 May 2015	4 May 2015	Independent non-executive Director	Audit supervision, reviewing and supervising the formulation of nomination policies for Directors, Supervisors and senior management

Mr. TANG Xinfa (唐新發), aged 45, is the Chairman and a non-executive Director of our Board. He joined our Company in May 2015 and has served as a non-executive Director since then.

Mr. Tang has extensive working experience in the following companies or entities:

Period	Name of Company/Entity	Position	Principal Function
Since March 2011	Parent Company	vice chairman, executive director and deputy general manager	Corporate management and decision-making
Since October 2010	Dongguan HEC Research	legal representative and executive director	Corporate management and decision-making
Since May 2010	Linzhi HEC Pharmaceutical Investment	director	Corporate management and decision-making
Since September 2009	Ruyuan HEC Pharma	director	Corporate management and decision-making
From September 2005 to September 2010	Sunshine Lake Pharma	head of research institute	Corporate management and decision-making
From September 2002 to September 2005	Shenzhen HEC Industrial	director of the general office	Corporate management and decision-making

Mr. Tang received a master degree in literary aesthetics from the Department of Chinese of Xiamen University in September 2002.

Mr. ZHU Yingwei (朱英偉), aged 44, is a non-executive Director of our Company. Mr. Zhu joined our Company in August 2001 and has served as a Director since then.

Mr. Zhu also serves in the following companies or entities:

Period	Name of Company/Entity	Position	Principal Function
Since September 2012	Linzhi HEC Pharmaceutical Investment	director	Corporate management and decision-making
Since December 2010	Parent Company	director, general manager and legal representative	Corporate management and decision-making
Since December 2006	Yichang HEC Power Plant Co., Ltd.	director	Corporate management and decision-making
Since April 2004	Yidu Changjiang Mechanism Equipment Co., Ltd. (宜都長江機械設備有限公司)	director	Corporate management and decision-making
Since February 2004	Yidu HEC Industrial Development Co., Ltd. (宜都市東陽光實業發展有限公司)	director	Corporate management and decision-making
Since December 2003	Sunshine Lake Pharma	director	Corporate management and decision-making
Since December 2001	Ruyuan Yao Autonomous Region Yangzhiguang Industrial Development Co., Ltd. (乳源瑤族自治縣陽之光實業發展有限公司)	director	Corporate management and decision-making
Since December 2001	Ruyuan Yangzhiguang Aluminum Development Co., Ltd. (乳源陽之光鋁業發展有限公司)	chairman and legal representative	Corporate management and decision-making

Period	Name of Company/Entity	Position	Principal Function
Since January 2001	Ruyuan Yao Autonomous Region Jingwei Industrial Development Co., Ltd. (乳源瑤族自治縣京偉實業發展有限公司)	legal representative and executive director	Corporate management and decision-making

Mr. Zhu serves as the vice president of Yichang Foreign Investment Association since December 2007, and was a standing committee member of Hubei Pharmaceutical Industry Association from April 2012 to April 2015. Mr. Zhu graduated with a bachelor degree in science from Jilin University in July 1993. He was recognised as a senior engineer in pharmaceutical engineering by the Professional Title Reformation Office of Hubei (湖北省職稱改革辦公室) in July 2009.

Mr. JIANG Juncai (蔣均才), aged 33, is an executive Director of our Board and the general manager of the Company. He joined the Company in May 2015 and has served as an executive Director since then.

Mr. Jiang has also served as a director of Yidu HEC Industrial Development Co., Ltd. from March 2012 to May 2015. Prior to that, Mr. Jiang was a director of Yichang Shancheng Cordyceps Sinensis Co., Ltd. (宜昌山城水都冬蟲夏草有限公司) from March 2012 to July 2015, and successively served as a researcher at the biochemistry division, a researcher and deputy head of the traditional Chinese medicine division and the deputy head of the zoological and botanical division of Sunshine Lake Pharma from July 2006 to May 2012.

Mr. Jiang graduated with a master degree in science from Shenyang Pharmaceutical University in June 2006.

Mr. WANG Danjin (王丹津), aged 45, is an executive Director of our Board and a deputy general manager of the Company. He joined the Company in February 2006, and has served as a Director since then.

Mr. Wang has also served as a supervisor of Parent Company from December 2010 to July 2015, and a director and general manager of Yichang HEC Pharmaceutical since April 2006. Prior to joining our Company, Mr. Wang was the head of production department of Jilin Tonghua Dongri Pharmaceutical Joint Stock Co., Ltd. (吉林省通化東日藥業股份有限公司) from March 2002 to January 2006, and a technologist at Jilin Dandong Pharmaceutical Factory (吉林省丹東製藥廠) from November 1991 to February 2002.

Mr. Wang graduated with a bachelor degree from Shenyang Pharmaceutical University (瀋陽藥科大學) through correspondence courses in January 2008. He is recognised as a licensed pharmacist by Ministry of Human Resources and Social Security of the People's Republic of China (formerly known as Ministry of Personnel of the People's Republic of China), and was recognised as a pharmacist-in-charge by Bureau of Human Resources and Social Security of Dandong (formerly known as Bureau of Personnel of Dandong (丹東市人事局) in October 2001.

Mr. MO Kit (毛杰), aged 64, is a non-executive Director of our Board. He joined the Company in May 2015, and has served as a non-executive Director since then.

Mr. Mo has also served as a director of North & South Brother Pharma since October 2006, a director of Dongguan Bisheng Electronic Limited since June 2002, a member of the board of directors of Ruyuan Yangzhiguang Aluminium Development Co., Ltd. since June 1998 and a director of North & South Brother (HK) since September 1998.

Mr. CHEN Yangui (陳燕桂), aged 34, is an executive Director of our Board. He joined the Company in May 2014, serving as the head of the sales department, Mr. Chen has served as an executive Director since May 2015.

Mr. Chen has also served as a supervisor of Ruyuan HEC Medical Instrument Co., Ltd. (乳源東陽光醫療器械有限公司) since July 2012 and a director of Ruyuan HEC Pharma since February 2010. Mr. Chen joined Dongguan HEC Research in 2005, and successively held positions as a researcher, the deputy head of research and development department and the head of synthesis department before he was appointed as the deputy head of research institute and the head of generic drug department.

Mr. Chen graduated with a master degree in science from Hunan University in June 2006.

Mr. TANG Jianxin (唐建新), aged 49, was appointed as an independent non-executive Director of our Board in May 2015.

Mr. Tang has also served as an independent director of Pingdingshan Tianan Coal Mining Co., Ltd. (SSE stock code: 601666) since May 2013. He has been an independent director of Zhongbai Holdings Group Co., Ltd. (SZSE stock code: 000759) since December 2011 and an independent director of Shenzhen Huapengfei Modern Logistics Co., Ltd. (SZSE stock code: 300350) since August 2010. He was an independent director of Wuhan Sanzhen Industry Holding Co., Ltd. (SSE stock code: 600168) from June 2009 to June 2015, and an independent director of Wuhan Zhongnan Commercial (Group) Co., Ltd. (SZSE stock code: 000785) from May 2008 to May 2014. Prior to that, Mr. Tang served as an independent director of Wuhan Accelink Technologies Co., Ltd. (SZSE stock code: 002281) from September 2006 to September 2009 and an independent director of Hubei Chutian Expressway Co., Ltd (湖北楚天高速公路股份有限公司) (SSE stock code: 600035) from April 2002 to April 2008. Mr. Tang has been a doctoral tutor at Wuhan University since 2006 and the dean of Accounting Department of Economics and Management School. He has been a professor at Wuhan University since 2004, and worked for the postdoctoral research center of the accounting department of Renmin University of China from 2000 to 2002.

Mr. Tang received his bachelor degree from the Economics Department of Wuhan University in June 1985, and then obtained a master degree in economics and a doctoral degree in economics from Wuhan University in September 1988 and January 1999 respectively. Mr. Tang was granted CPA qualification by the Chinese Institute of Certified Public Accountants in December 1997.

Mr. FU Hailiang (付海亮), aged 44, was appointed as an independent non-executive Director of our Board in May 2015.

Mr. Fu has been a partner and the head of administration function of Hubei S&H Law Firm since May 2005. He was a partner of Hubei Haohan Law Firm (湖北浩瀚律師事務所) from October 2000 to May 2005 and an associate at Wuhan Third Law Firm (武漢市第三律師事務所) from November 1996 to October 2000. Mr. Fu has been a council member of the Wuhan Lawyers Association and the chief of the Association of Finance, Securities and Law Industry (金融證券法律專業委員會) since February 2014.

Mr. Fu graduated with a professional certification in financial management from Wuhan University in July 1993, and graduated with a bachelor degree in law from Zhongnan University of Economics and Law in June 1998. After that, he graduated with a master degree in law from Wuhan University in February 2003. Mr. Fu has been admitted to practice PRC law in June 1998 and was recognized as an excellent lawyer of Hubei by the Department of Justice of Hubei and the Hubei Lawyers Association (湖北省律師協會) in March 2011.

Mr. LEE Chi Ming (李志明), aged 62, was appointed as an independent non-executive Director of our Board in May 2015.

Mr. Lee has also served as a director of Ever East Consultants Limited in Hong Kong since August 2013. Prior to that, Mr. Lee served as an executive science director in the research of central nervous system and pain control and a global product director of AstraZeneca Pharmaceuticals Co. Ltd., a section head, associate director and project manager at Bayer Corporation and a senior group leader of neuroscience at Abbott Laboratories. He also worked as a lecturer and then a senior lecturer at the Chinese University of Hong Kong from September 1982 to February 1992.

Mr. Lee received a bachelor degree in science and a master degree in biochemistry from the University of Hong Kong in June 1975 and July 1977 respectively, and a doctoral degree in pharmacology from the University of Cambridge in July 1980 before he completed his postdoctoral research at the Johns Hopkins University in July 1982.

SUPERVISORS

Our supervisory committee consists of three Supervisors. The following table sets forth certain information about our Supervisors:

Name	Age	Date of joining our Group	Date of appointment	Position	Responsibility
Ms. HUANG Fangfang (黃芳芳)	33	4 May 2015	4 May 2015	Chairman of the supervisory committee	Supervising the compliance of our business operation
Ms. XUE Lian (薛蓮)	35	20 November 2009	4 May 2015	Employee representative Supervisor	Supervising the compliance of our business operation
Mr. LIN Jian (林健)	31	4 May 2015	4 May 2015	Supervisor	Supervising the compliance of our business operation

Ms. HUANG Fangfang (黃芳芳), aged 33, is a Supervisor of the Company. She joined the Company in May 2015, and has been the chairman of the supervisory committee since then. She has also served as the executive deputy head of the generic drug department of Sunshine Lake Pharma since June 2014, and the head of formulation department of Sunshine Lake Pharma since February 2009. Prior to that, Ms. Huang was the head of analysis section under the formulation department of Sunshine Lake Pharma from July 2006 to February 2009.

Ms. Huang graduated with a master degree in science from Sun Yat-sen University in June 2006.

Ms. XUE Lian (薛蓮), aged 35, is an employee representative Supervisor of the Company. She joined the Company in November 2009 and has served as the chief quality officer and the head of quality division of the Company. She has been an employee representative Supervisor since May 2015.

Prior to that, Ms. Xue was the director of quality assurance department of Parent Company from May 2006 to November 2009, a quality assurance specialist of Parent Company from December 2004 to April 2006 and a quality control and quality assurance specialist from March 2002 to December 2004.

Ms. Xue graduated with a bachelor degree from Wuhan Institute of Technology through correspondence courses in January 2008, and also graduated with a master degree in engineering from Peking University in July 2015. She was recognised as an engineer in pharmaceutical engineering by the Professional Title Reformation Office of Yichang (宜昌市職稱改革辦公室) in December 2008.

Mr. LIN Jian (林健), aged 31, is a Supervisor of the Company. He joined the Company in May 2015, and has been a Supervisor since then. He has been an deputy director of the generic drug department of Dongguan HEC Research since June 2012.

Mr. Lin graduated with a doctor's degree in science, majoring in organic chemistry from Jilin University (吉林大學) in June 2012.

SENIOR MANAGEMENT

The following table sets out certain information about our senior management:

Name	Age	Date of joining our Group	Date of appointment	Position	Responsibility
Mr. JIANG Juncai (蔣均才)	33	4 May 2015	4 May 2015	General manager	Overall day-to-day management
Mr. WANG Danjin (王丹津)	45	27 February 2006	4 May 2015	Deputy general manager	Operational management
Mr. LI Shuang (李爽)	34	7 August 2005	4 May 2015	Deputy general manager	Operational management
Mr. ZHU Qiaohong (朱巧洪)	47	11 May 2002	11 May 2002	Deputy general manager	Operational management
Mr. LEI Xiantong (雷先桐)	45	4 May 2015	4 May 2015	Chief financial officer	Financial management
Mr. PAN Sanxiong (潘三雄)	33	4 May 2015	4 May 2015	Secretary of the Board	Day-to-day operation of the Board

For the biography of **Mr. JIANG Juncai (蔣均才)** and **Mr. WANG Danjin (王丹津)**, please refer to "Directors" in this section.

Mr. LI Shuang (李爽), aged 34, is the deputy general manager of the Company. He joined the Company in August 2005 and worked as a member of the insulin research team. He has served as the deputy general manager of the Company since May 2015.

Mr. Li has also served as the deputy head of the Company's insulin factory since October 2013 and the head of API department of that factory since February 2006. Mr. Li was the head of purification department of the Company's insulin factory from December 2008 to September 2013.

Mr. Li graduated with a bachelor degree in engineering from China Three Gorge University (三峽大學) in June 2004.

Mr. ZHU Qiaohong (朱巧洪), aged 47, is the deputy general manager of the Company. He joined the Company in May 2002, and has served as the deputy general manager of the Company since then.

Mr. Zhu has been the vice chairman of Pharmaceutical Profession Association of Hubei Province since April 2015, and has also served as a supervisor of Yichang HEC Pharmaceutical since June 2005. Mr. Zhu was the director of GMP office of Apeloa Kangyu Pharmaceutical Co., Ltd. from October 1993 to May 2002, and a technician of the General Security Station of the State-owned Ecological Forest (國有生態公益林保護總站) of Dongyang City from August 1990 to October 1993.

Mr. Zhu graduated with a bachelor degree in science from Jilin University in July 1990. He was recognised as an engineer in pharmaceutical engineering by the Bureau of Human Resources and Social Security of Jinhua (formerly known as the Bureau of Personnel of Jinhua (金華市人事局)) in August 1999.

Mr. LEI Xiantong (雷先桐), aged 45, is the chief financial officer of the Company. Mr. Lei joined the Company in May 2015, and has served as our chief financial officer since then.

Mr. Lei has been the chief financial officer of Parent Company from December 2010 to May 2015. Mr. Lei has also been the deputy head of financial department of Yidu Dongyangguang Industrial Development Co., Ltd. from January 2004 to December 2010 and a staff member at the financial department from September 2001 to January 2004. Mr. Lei held positions relating to financial accounting in various companies before that.

Mr. Lei graduated with a professional certification in financial accounting from Zhongnan University of Economics (currently known as Zhongnan University of Economic and Law) in June 1997. Mr. Lei was recognised as a registered tax agent of China by the Ministry of Human Resources and Social Security of the People's Republic of China.

Mr. PAN Sanxiong (潘三雄), aged 33, is the secretary of the Board of our Company. He joined the Company in May 2015 and has served as the secretary of the Board since then.

Prior to that, Mr. Pan was a representative of the securities department of Parent Company from April 2010 to April 2015, responsible for investor communication, handling financing and corporate secretarial matters. Mr. Pan also worked in the securities department of Starway Bio-technology Co., Ltd. in Guangdong (廣東星河生物科技股份有限公司) from October 2008 to April 2010.

Mr. Pan graduated with a bachelor degree in management from Guizhou University of Finance and Economics in 2007. He obtained a Qualification Certificate of Board Secretary issued by the Shanghai Stock Exchange in November 2010 and passed the qualification examination for practitioners in the securities industry held by Security Association of China in November 2009.

JOINT COMPANY SECRETARIES

For the biography of **Mr. PAN Sanxiong (潘三雄)**, please refer to "Senior Management" in this section.

Ms. NG Wing Shan (吳詠珊) was appointed as a joint company secretary of the Company on 24 July 2015. Ms. Ng is an assistant vice president of SW Corporate Services Group Limited and is responsible for assisting listed companies in respect of professional company secretarial work. She is also a company secretary/joint company secretary of several companies listed on The Stock Exchange of Hong Kong Limited. She has over 10 years of professional experience in the company secretarial field and is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. Prior to joining SW Corporate Services Group Limited, she worked for a corporate service provider and was responsible for handling secretarial and compliance matters in relation to Hong Kong listed companies and private companies incorporated in different jurisdictions.

Save as disclosed above, no Director, Supervisor or member of the senior management held any directorship in any other listed company within the three years immediately preceding the date of this prospectus, and there is no other information relating to our Directors that shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee consists of three members, namely Mr. Tang Jianxin, Mr. Lee Chi Ming and Mr. Tang Xinfa, among whom Mr. Tang Jianxin serves as the chairman of audit committee. The primary duties of the audit committee are to oversee the financial reporting system and internal control procedures of the Company, review the financial information of the Company and consider issues relating to the external auditors and their appointment.

Remuneration and Appraisal Committee

We have established a remuneration and appraisal committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The remuneration and appraisal committee consists of three members, namely Mr. Fu Hailiang, Mr. Jiang Juncai and Mr. Tang Jianxin, among whom Mr. Fu Hailiang serves as the chairman of remuneration and appraisal committee. The primary duties of the remuneration and appraisal committee are to advise on and formulate the remuneration and appraisal policy in respect of Directors, senior management and other managing members of our Group and make recommendations to the Board.

Nomination Committee

We have established a nomination committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely Mr. Lee Chi Ming, Mr. Zhu Yingwei and Mr. Fu Hailiang, among whom Mr. Lee Chi Ming serves as the chairman of nomination committee. The primary duties of the nomination committee are to review the composition of the Board, assess the independence of independent non-executive Directors and make recommendations to the Board on the appointment and removal of Directors.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Our Directors and Supervisors receive compensation in the form of fees, salaries, bonuses, contributions to pension schemes, housing and other allowances and benefits in kind subject to applicable laws, rules and regulations. The aggregate amount of compensation (including fees, salaries, bonuses, contributions to pension schemes, housing and other allowances) and benefits in kind paid to the Directors and Supervisors for each of the year ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 were approximately RMB184,000, RMB187,000, RMB190,000 and RMB215,000 respectively.

The aggregate amount of compensation (including fees, salaries, bonuses, contributions to pension schemes, housing and other allowances) and benefits in kind paid to the five highest paid individuals of our Group, including Directors and Supervisors, for each of the year ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 were approximately RMB889,000, RMB983,000, RMB1,022,000 and RMB405,000, respectively.

Under the arrangements currently in force, we estimate the aggregate remuneration and benefits in kind payable to the Directors and Supervisors, excluding discretionary bonuses, for the year ended 31 December 2015 to be approximately RMB688,000.

During the Track Record Period, no remuneration was paid to the Directors or Supervisors or the five highest paid individuals as an inducement to join or upon joining the Group. No compensation was paid to, or receivable by, the Directors or Supervisors or the five highest paid individuals of the Company for the loss of office as director or supervisor of any member of the Group or of any other office in connection with the management of any member of the Group. None of the Directors or Supervisors had waived or agreed to waive any remuneration and/or emolument during the Track Record Period.

Particulars of the service contracts or the letters of appointment entered into between the Company and the Directors and Supervisors are set out in "Appendix VI – Statutory and General Information".

COMPLIANCE ADVISER

We have appointed China International Capital Corporation Hong Kong Securities Limited as our compliance advisor upon listing of our Shares on the Stock Exchange pursuant to Rule 3A.19 and Rule 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 and Rule 3A.24 of the Listing Rules, our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction under the provisions of the Listing Rules, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

Pursuant to Rule 19A.06 of the Listing Rules, our compliance advisor will, on a timely basis, inform us of any amendment or supplement to the Listing Rules that are announced by the Stock Exchange. Our compliance advisor will also inform us of any amendment or supplement to the applicable laws and guidelines.

The term of appointment of the compliance advisor shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

FUTURE PLANS

Please see "Business – Our Strategies and Future Plans" and "Business – Future Expansion and Upgrade Plan", respectively, for a detailed description of our future plans.

USE OF PROCEEDS

In the event that the Over-allotment Option is not exercised, we estimate that we will receive net proceeds from the Global Offering of approximately HK$1,351.1 million (after deducting the underwriting fees, commissions and estimated expenses paid or payable by us in relation to the Global Offering), assuming an Offer Price of HK$16.10 per H Share, being the mid-point of the indicative offer price range stated in this prospectus. We plan to use our net proceeds from the Global Offering as follows:

(a) approximately 44.8% of the net proceeds, or approximately HK$605.6 million (RMB500 million), to construct a new oral formulation production plant at our Yidu Base Area No.3. Please see "Business – Future Expansion and Upgrade Plan – New Oral Formulation Production Plant at Yidu Base Area No. 3";

(b) approximately 12.6% of the net proceeds, or approximately HK$170.2 million (RMB140.5 million), to construct a new insulin production plant at our Yidu Base Area No.3. Please see "Business – Future Expansion and Upgrade Plan – New Insulin Production Plant at Yidu No. 3 Base";

(c) approximately 32.6% of the net proceeds, or approximately HK$440.2 million (RMB363.5 million) in promotional and marketing activities for our current and future products, including educational promotion activities, advertisements and sponsorships, publishing marketing and promotional materials, expanding and establishing specialised teams for our key products and conducting market research in relation to our products.

(d) approximately 10% of the net proceeds, or approximately HK$135.1 million (RMB111.6 million), to be used for working capital and general corporate purposes.

To the extent that our actual net proceeds from the Global Offering differ from our estimate above, we intend to apply: (i) approximately HK$605.6 million (RMB500 million) to construct a new oral formulation production plant at our Yidu Base Area No. 3 (as described in (a) above); (ii) approximately HK$170.2 million (RMB140.5 million) to construct a new oral formulation production plant at our Yidu Base Area No. 3 (as described in (b) above); approximately 10% of actual net proceeds for working capital and general corporate purposes; and the remaining balance of our net proceeds for promotional and marketing activities for our current and future products as set out in (c) above.

In the event that the Over-allotment Option is not exercised, after deducting the underwriting fees, commissions and estimated expenses payable by us in relation to the Global Offering, we estimate that we will receive net proceeds from the Global Offering of: (i) approximately HK$1,559.9 million assuming the Offer Price is determined to be HK$18.50 per H Share, being the high-end of the indicative offer price range stated in this prospectus; and (ii) approximately HK$1,142.4 million, assuming the Offer Price is determined to be HK$13.70 per H Share, being the low-end of the indicative offer price range stated in this prospectus.

In the event that the Over-allotment Option is exercised in full, after deducting the underwriting fees, commissions and estimated expenses payable by us in relation to the Global Offering, we estimate that we will receive net proceeds from the Global Offering of: (i) approximately HK$1,801.1 million assuming the Offer Price is determined to be HK$18.50 per H Share, being the high-end of the indicative offer price range stated in this prospectus; (ii) approximately HK$1,561.1 million assuming the Offer Price is determined to be HK$16.10 per H Share, being the mid-point of the indicative offer price range stated in this prospectus; and (iii) approximately HK$1,321.0 million, assuming the Offer Price is determined to be HK$13.70 per H Share, being the low-end of the indicative offer price range stated in this prospectus.

To the extent that the net proceeds from the Global Offering are not immediately used for the above purposes to the extent permitted under applicable laws and regulations, we may allocate part or all of the proceeds to short-term interest-bearing deposits or money-market instruments with authorised financial institutions or licensed banks in Hong Kong or the PRC.

We will issue an appropriate announcement if there is any material change in the abovementioned use of proceeds.

HONG KONG UNDERWRITERS

Hong Kong Underwriters

China International Capital Corporation Hong Kong Securities Limited

ICBC International Securities Limited

CMB International Capital Limited

ABCI Securities Company Limited

CCB International Capital Limited

Nomura International (Hong Kong) Limited

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Offering is expected to be fully underwritten by the International Purchasers. If, for any reason, the Offer Price is not agreed between the Representative (on behalf of the Underwriters) and the Company, the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 9,013,200 Hong Kong Offer Shares and the International Offering of initially 81,118,800 International Offer Shares, subject, in each case, to reallocation on the basis as described in "Structure of the Global Offering", as well as to the Over-allotment Option in the case of the International Offering.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 14 December 2015. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement at the Offer Price.

Subject to (i) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering on the Main Board of the Stock Exchange and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or

procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on the International Purchase Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The Representative (for itself and on behalf of the Hong Kong Underwriters) may, in their sole and absolute discretion, be entitled by notice in writing to the Company to terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

(I) there shall develop, occur, exist or come into effect:

(a) any new law or regulation or any change or development involving a prospective change in existing laws or regulations, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, Singapore or any other jurisdiction relevant to the Group (collectively, the "**Relevant Jurisdiction**"); or

(b) any change or development involving a prospective change, or any event or series of events resulting or likely to result in or representing any change or development, or any prospective change or development, in local, national, regional or international financial, economic, political, military, industrial, legal, fiscal, regulatory, currency, credit or market matters or conditions or exchange control or any monetary or trading settlement system (including, without limitation, a change in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) or a change in the system under which the value of the Hong Kong Dollar is linked to the United States Dollar or revaluation of HK dollar or Renminbi against any foreign currencies or a change in any other currency exchange rates, in any of the Relevant Jurisdictions; or

(c) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any other jurisdiction relevant to any member of the Group, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of the Relevant Jurisdictions; or

(d) the imposition of any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Singapore Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or

(e) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong Dollar or the Renminbi against any foreign currencies) in any of the Relevant Jurisdictions adversely affecting an investment in the H Shares; or

(f) any adverse change or development or event involving any prospective adverse change or development in the assets, liabilities, profit, losses, earnings, results of operations, business, performance, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of the Company or any member of the Group; or

(g) the outbreak or escalation of hostilities (whether or not war is or has been declared) involving or affecting any of the Relevant Jurisdictions or the declaration by any of the Relevant Jurisdictions of a national emergency or war or any other national or international calamity or crisis; or

(h) any event, or series of events, in the nature of force majeure in or affecting directly or indirectly any of the Relevant Jurisdictions (including, without limitation, any act of God, act of government, declaration of a national or international emergency or war, calamity, crisis, riot, public disorder, civil commotion, fire, flood, explosion, epidemic (including SARS, swine or avian flu, H5N1, H1N1, H7N9 or such related/mutated forms), pandemic, outbreak of infectious disease, economic sanctions, earthquake, terrorism, strike, labour dispute or lock-out); or

(i) any Director or Supervisor being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any government, political, regulatory body of any action against any Director or Supervisor in his capacity as such or an announcement by any governmental, political regulatory body that it intends to take any such action; or

(j) the Chairman, Chief Executive Officer or any Director of the Company vacating his office; or

(k) any governmental authority or a political or regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or take other action, or announcing an intention to investigate or take other action, against any member of the Group or any Director; or

(l) any imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions on the PRC or any other jurisdiction relevant to any member of the Group; or

(m) any litigation or claim being threatened or instigated against the Company; or

(n) any contravention by any member of the Group or any Director of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Listing Rules or other applicable Laws; or

(o) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling the Offer Shares (including the H Shares allotted or sold under the Over-allotment Option) pursuant to the terms of the Global Offering; or

(p) non-compliance of the Hong Kong Public Offering Documents (or any other documents used in connection with the contemplated offer and sale of the H Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or

(q) except with the prior written consent of the Representative, the issue or requirement to issue by the Company of any supplement or amendment to this prospectus, Application Forms, post hearing information pack, preliminary offering circular or final offering circular or other documents in connection with the offer and sale of the H Shares pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC in circumstances where the matter to be disclosed is, in the sole opinion of the Representative, adversely affect the marketing for or implementation of the Global Offering; or

(r) an order or a petition is presented for the winding up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

(s) a valid demand by any creditor for repayment or payment of any of the indebtedness of any member of the Group or in respect of which that member of the Group is liable prior to its stated maturity, or any loss or damage sustained by that member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person),

which in the "sole and absolute" opinion of the Representative (for itself and on behalf of the Hong Kong Underwriters)

(1) is or will or is likely to have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Group as a whole; or

(2) has or will have or is likely to have a material adverse effect on the success or marketability of the Hong Kong Public Offering or the International Offering or the level of applications under the Hong Kong Public Offering; or

(3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable or incapable for any part of the Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering or the delivery of the Offered Shares to be performed or implemented or proceed as envisaged or to market the Global Offering in the manner contemplated by the prospectus; or

(4) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting the Hong Kong Public Offering and/or the Global Offering) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(II) there comes to the notice of the Representative or any of the Hong Kong Underwriters:

(a) any statement contained in any of the prospectus, the application forms and the formal notice and/or in any notices, announcements, post hearing information packs, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or inaccurate in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation expressed or contained in any of the prospectus, the application forms and the formal notice and/or any notices, announcements, post hearing information packs, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions with reference to the facts and circumstances then subsisting; or

(b) non-compliance of the prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or

(c) any matter or event arising or has been discovered rendering or there coming to the notice of the Representative or the Hong Kong Underwriters any matter or event showing any of the representations, warranties and undertakings given by the Company or the warrantors in the Hong Kong Underwriting Agreement or the International Purchase Agreement, as applicable, is (or would when repeated be) untrue, incorrect or incomplete in any material respect, or misleading or having been breached; or

(d) any matter or event, act or omission which gives or is likely to give rise to any material liability of the Company or the warrantors pursuant to the indemnities given by the Company, the warrantors or any of them under the Hong Kong Underwriting Agreement; or

(e) any breach on the part of the Company and/or the warrantors of any provisions of or obligations under the Hong Kong Underwriting Agreement or the International Purchase Agreement in any material respect; or

(f) any material adverse change or development involving a prospective adverse change or development in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, properties, results of operations, position or condition (financial or otherwise) of the Group, including any litigation or claim of any third party being threatened or instigated against any member of the Group; or

(g) any of the experts (other than the Sole Sponsor) specified in this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

(h) the Company has withdrawn the prospectus, the application forms (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(i) approval by the Listing Committee of the listing of, and permission to deal in, the Offer Shares, subject only to allotment and the dispatch of share certificates in respect thereof, is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or

(j) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of the prospectus, not having been disclosed in the prospectus, constitute a material omission from any of the prospectus, the Application Forms and/or in any notices, announcements, post hearing information packs, advertisements, communications or other documents (including any supplement or amendment thereto) issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering; or

(k) the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors having been withdrawn, terminated or cancelled or a material portion of the orders in the bookbuilding process at the time the International Purchase Agreement is entered into having been withdrawn, terminated or cancelled and such withdrawn, terminated or cancelled orders not having been fully covered by other orders at or before 4:00 p.m. on 18 December 2015 (the "**replacement orders**") or any replacement order having been subsequently withdrawn, terminated or cancelled, and the Representative, in its sole discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering.

Confirmation by our Company pursuant to the Listing Rules

Pursuant to Rule 10.08 of the Listing Rules, we confirm that no further Shares or securities convertible into equity securities of our Company (whether not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except:

(a) in certain circumstances prescribed by Rule 10.08 of the Listing Rules; or

(b) pursuant to the Global Offering (including the Over-allotment Option).

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to us that, except to the extent permitted under the Listing Rules and any dilution as a result of the Global Offering, it will not (and will procure that the relevant registered holder(s) will not):

(i) in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and

(ii) in the period of six months commencing on the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder of us.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and to us that, within the period commencing on the date by reference to which disclosure of its shareholding in us is made in this prospectus and ending on the date which is 12 months from the date on which dealings in the Shares commence on the Stock Exchange, it will:

(a) when it pledges or charges any Shares beneficially owned by it in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of Shares so pledged or charged; and

(b) when it receives indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform us of such indications.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

We have undertaken to the Representative, the Joint Global Coordinators, the Sole Sponsor, the Hong Kong Underwriters and each of them not to (except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-Allotment Option)), and to procure each other member of the Group not to, without the prior written consent of the Sole Sponsor and the Representative (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules (and only after the consent of any relevant PRC authority (if so required) has been obtained), at any time during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "First Six-Month Period"):

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares or other securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares or any shares of such other member of the Group, as applicable), or deposit any H Shares or other securities of the Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of any H Shares, debt capital or other securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares, as applicable); or

(iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or

(iv) offer to or agree to or announce, or publicly disclose, any intention to effect any transaction specified in (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in (i), (ii), (iii) or (iv) above is to be settled by delivery of H Shares or other securities of the Company, as applicable, or in cash or otherwise (whether or not the issue of such H Shares or other shares or securities will be completed within the First Six-month Period). In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the "Second Six-Month Period"), the Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces, or publicly discloses, any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

Undertakings by the Covenantors

Each of Parent Company, Dongguan HEC Industrial, Linzhi HEC Pharmaceutical Investment, Shenzhen HEC Industrial and Mr. Zhang (together, the "Covenantors") jointly and severally undertakes to each of the Company, the Representative, the Joint Global Coordinators, the Sole Sponsor and the Hong Kong Underwriters to procure that, without the prior written consent of the Sole Sponsor and the Representative (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules (and only after the consent of any relevant PRC Authority (if so required) has been obtained):

(a) (1) the Covenantors will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, hedge, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any H Shares or other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or

exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares), or deposit any H Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any H Shares or other securities of the Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of H Shares or other securities of the Company or in cash or otherwise (whether or not the issue of such H Shares or other securities will be completed within the First Six-Month Period);

(2) the Covenantors will not, during the Second Six-Month Period, enter into any of the transactions specified in (a)(1)(i), (a)(1)(ii) or (a)(1)(iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, any of the Covenantors will cease to be a "controlling shareholder" (as the term is defined in the Listing Rules) of the Company; and

(3) until the expiry of the Second Six-Month Period, in the event that any Covenantor enters into any of the transactions specified in (a)(1)(i), (a)(1)(ii) or (a)(1)(iii) above or offer to or agrees to or announce any intention to effect any such transaction, that Covenantor will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company; and

(b) at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months after the Listing Date, it shall:

(i) if and when he/it pledges or charges any securities or interests in the securities of the Company beneficially owned by him/it, immediately inform the Company, the Sole Sponsor and the Representative in writing of such pledge or charge together with the number of securities so pledged or charged; and

(ii) if and when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be disposed of, immediately inform the Company, the Sole Sponsor and the Representative in writing of such indications.

The Company agrees and undertakes that upon receiving such information in writing from any of the Covenantors, it shall, as soon as practicable and if required pursuant to the Listing Rules, notify the Stock Exchange and make a public disclosure in relation to such information by way of press announcement.

Hong Kong Underwriters' Interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and/or the International Purchase Agreement, as at the Latest Practicable Date, none of the Hong Kong Underwriters was interested legally or beneficially, directly or indirectly, in any Shares or other securities of us or any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or other securities of us or any other member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and/or the International Purchase Agreement.

International Offering

International Purchase Agreement

In connection with the International Offering, we and the Covenantors expect to enter into the International Purchase Agreement with the International Purchasers. Under the International Purchase Agreement and subject to the Over-allotment Option, the International Purchasers would, subject to certain conditions set out therein, agree severally to initially being offered pursuant to the International Offering. See "Structure of the Global Offering – The International Offering."

Commissions and Expenses

The Company will pay an aggregate underwriting commission of 2.5% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares issued pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees.

The Representative may receive a discretionary incentive fee of up to 1.0% of the aggregate Offer Price of all the Hong Kong Offer Shares (excluding any International Offer Shares reallocated to the Hong Kong Public Offering and any Hong Kong Offer Shares reallocated to the International Offering).

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Purchasers.

The aggregate underwriting commissions and fees payable to the Underwriters, together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses in relation to the Global Offering are estimated to be approximately HK$100.0 million (assuming an Offer Price of HK$16.10 per Offer Share (which is the mid-point of the indicative Offer Price range), the Over-allotment Option is not exercised and the full payment of a discretionary incentive fee) and will be paid by us.

Indemnity

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

INDEPENDENCE OF THE SOLE SPONSOR

China International Capital Corporation Hong Kong Securities Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "Syndicate Members") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers.

In relation to the H Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the H Shares (which financing may be secured by the H Shares) in the Global Offering,

proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the H Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the H Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in "Structure of the Global Offering." Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and

(b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members or their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. China International Capital Corporation Hong Kong Securities Limited ICBC International Capital Limited and CMB International Capital Limited are the Joint Global Coordinators of the Global Offering.

The Global Offering comprises:

(i) the Hong Kong Public Offering of initially 9,013,200 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described in "– The Hong Kong Public Offering" below; and

(ii) the International Offering of initially 81,118,800 Offer Shares (subject to adjustment as mentioned below) (a) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in accordance with Regulation S and (b) in the United States to QIBs in reliance on an exemption from registration under the US Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act, as described in "– The International Offering" below.

Investors may either:

(i) apply for Hong Kong Offer Shares under the Hong Kong Public Offering; or

(ii) apply for or indicate an interest for International Offer Shares under the International Offering,

but may not do both.

The Offer Shares will represent 20.0% of the issued share capital of the Company immediately following the completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 22.3% of the issued share capital of us immediately following the completion of the Global Offering (assuming exercise of the Over-allotment Option in full).

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in "– The Hong Kong Public Offering – Reallocation".

References in this prospectus to applications, Application Forms, application monies or the procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering 9,013,200 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering. The number of Offer Shares initially offered under the Hong Kong Public Offering, subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, will represent approximately 2% of the total issued share capital of the Company immediately following the completion of the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong, as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in "– Conditions of the Global Offering" below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering (after taking into account any reallocation referred to below) will be divided equally (to the nearest board lot) into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If any Hong Kong Offer Shares in one (but not both) of the pools are unsubscribed, such unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose

of the immediately preceding paragraph only, the "price" for Hong Kong Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B and not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 4,506,600 Hong Kong Offer Shares are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. If the number of H Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times and (iii) 100 times or more of the total number of H Shares initially available under the Hong Kong Public Offering, then H Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of H Shares available under the Hong Kong Public Offering will be increased to 27,039,600 H Shares (in the case of (i)), 36,052,800 H Shares (in the case of (ii)) and 45,066,000 H Shares (in the case of (iii)), representing 30%, 40% and 50% of the total number of H Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Representative deem appropriate. In addition, the Representative may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Representative have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Representative deem appropriate.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering. Such applicant's application is liable to be rejected if such undertaking and/or confirmation is breached and/or untrue (as the case may be) or if it has been or will be placed or allocated International Offer Shares under the International Offering.

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK$18.50 per H Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share, amounting to a total of HK$3,737.29 for one board lot of 200 Shares. If the Offer Price, as finally determined in the manner described in "– Pricing and Allocation" below, is less than the maximum Offer Price of HK$18.50 per H Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. See "How to Apply for Hong Kong Offer Shares."

THE INTERNATIONAL OFFERING

Number of Offer Shares initially offered

The International Offering will consist of an offering of initially 81,118,800 Offer Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering (subject to adjustment and the Over-allotment Option).

Allocation

The International Offering will include selective marketing of Offer Shares to QIBs in the United States, as well as institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in "– Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of us and the Shareholders as a whole.

The Representative (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Representative so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any allotment of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement described in "– The Hong Kong Public Offering – Reallocation" above, the exercise of the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we are expected to grant an Over-allotment Option to the International Purchasers, exercisable by the Representative on behalf of the International Purchasers.

Pursuant to the Over-allotment Option, the International Purchasers will have the right, exercisable by the Representative (on behalf of the International Purchasers) at any time during the 30 day period from the last day for lodging applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 13,519,800 H Shares, representing not more than 15% of the total number of Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to, among others, cover over-allocations in the International Offering, if any. If the Over-allotment Option is exercised, an announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising action. Such stabilising action, if taken, (i) will be conducted at the absolute discretion of the Stabilising Manager or any person acting for it and in what the Stabilising Manager reasonably regards as the best interest of us, (ii) may be discontinued at any time and (iii) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of the H Shares, (ii) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the H Shares, (iii) purchasing, or agreeing to purchase, the H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the H Shares for the sole purpose of preventing or minimising any reduction in the market price of the H Shares, (v) selling or agreeing to sell any H Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilising Manager or any person acting for it may, in connection with the stabilising action, maintain a long position in the H Shares;

- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager or any person acting for it will maintain such a long position;

- liquidation of any such long position by the Stabilising Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of the H Shares;

- no stabilising action can be taken to support the price of the H Shares for longer than the stabilisation period, which will begin on the Listing Date, and is expected to expire on Sunday, 3 January 2016, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the H Shares, and therefore the price of the H Shares, could fall;

- the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and

- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

We will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilization period.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Stabilising Manager (or any person acting for it) may cover such over-allocations by, among others, exercising the Over-allotment Option in full or in part, by using H Shares purchased by the Stabilising Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price.

PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Friday, 18 December 2015 and, in any event, not later than Monday, 28 December 2015, by agreement between the Representative (on behalf of the Underwriters) and us, and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$18.50 per Offer Share and is expected to be not less than HK$13.70 per Offer Share unless otherwise announced, as further explained below. Applicants under the Hong Kong Public Offering must pay, on application, the maximum Offer Price of HK$18.50 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK$3,737.29 for one board lot of 200 H Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Offer Price range stated in this prospectus.

The International Purchasers will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Representative, on behalf of the Underwriters, may, where it deems appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Offering, and with the consent of us, reduce the number of Offer Shares offered and/or the Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Company and the Stock Exchange at **www.hec-changjiang.com** and **www.hkexnews.hk**, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Representative (on behalf of the Underwriters) and us, will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Representative (on behalf of the Underwriters) and us, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocation of the Hong Kong Offer Shares and the results of allocations in the Hong Kong Public Offering are expected to be made available through a variety of channels in the manner described in "How to Apply for Hong Kong Offer Shares – 14. Despatch/Collection of Share Certificates and Refund Monies."

UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Representative (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Purchase Agreement relating to the International Offering on the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarised in "Underwriting."

H SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares will be conditional on:

(i) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering on the Main Board of the Stock Exchange (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);

(ii) the Offer Price having been agreed between us and the Representative (on behalf of the Underwriters);

(iii) the execution and delivery of the International Purchase Agreement on or about the Price Determination Date; and

(iv) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Purchasers under the International Purchase Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times).

If, for any reason, the Offer Price is not agreed between us and the Representative (on behalf of the Underwriters) on or before Monday, 28 December 2015, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among others, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at **www.hkexnews.hk** and us at **www.hec-changjiang.com** on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares – 14. Despatch/Collection of Share Certificates and Refund Monies." In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Tuesday, 29 December 2015 provided that the Global Offering has become unconditional in all respects and the right of termination described in "Underwriting" has not been exercised.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 29 December 2015, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, 29 December 2015.

The H Shares will be traded in board lots of 200 H Shares each and the stock code of the H Shares will be 1558.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest in International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Representative, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Representative may accept it at their discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- are a Director or general manager of the Company and/or any of its subsidiaries;
- are a core connected person (as defined in the Listing Rules) of the Company or its subsidiaries or will become a core connected person of the Company or its subsidiaries immediately upon completion of the Global Offering; and
- are an associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for or indicated an interest in any Offer Shares under the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. from Tuesday, 15 December 2015 to 12:00 noon on Friday, 18 December 2015 from:

(i) any of the following offices of the Hong Kong Underwriters:

China International Capital Corporation Hong Kong Securities Limited	29th Floor, One International Finance Center 1 Harbour View Street Central Hong Kong

ICBC International Securities Limited	37/F, ICBC Tower 3 Garden Road Central Hong Kong
CMB International Capital Limited	Units 1803-4 18/F Bank of America Tower 12 Harcourt Road Central, Hong Kong
ABCI Securities Company Limited	10/F Agricultural Bank of China Tower 50 Connaught Road Central Central, Hong Kong
CCB International Capital Limited	12/F CCB Tower 3 Connaught Road Central Central Hong Kong
Nomura International (Hong Kong) Limited	30/F Two International Finance Centre 8 Finance Street Central Hong Kong

(ii) any of the following branches of the receiving banks:

(1) Bank of China (Hong Kong) Limited

District	Branch	Address
Hong Kong Island:	Central District Branch	2A Des Voeux Road Central
	Causeway Bay Branch	505 Hennessy Road Causeway Bay Hong Kong
Kowloon:	Yau Ma Tei Branch	471 Nathan Road Yau Ma Tei
	Metro City Branch	Shop 209, Level 2 Metro City Phase 1 Tseung Kwan O
New Territories:	Kau Yuk Road Branch	18-24 Kau Yuk Road Yuen Long

(2) Wing Lung Bank Limited

District	Branch	Address
Hong Kong Island:	Head Office	45 Des Voeux Road Central
Kowloon:	Mongkok Branch	B/F Wing Lung Bank Centre 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
	To Kwa Wan Branch	64 To Kwa Wan Road
New Territories:	Shatin Plaza Branch	21 Shatin Centre Street

(3) Industrial and Commercial Bank of China (Asia) Limited

District	Branch	Address
Hong Kong Island:	West Point Branch	242-244 Queen's Road West Sai Ying Pun
	Quarry Bay Branch	Shop SLG1, Sub-Lower Ground Floor Westlands Gardens Nos. 2-12, Westlands Road, Quarry Bay
Kowloon:	Mei Foo Branch	Shop N95A, 1/F, Mount Sterling Mall Mei Foo Sun Chuen
New Territories:	Tsuen Wan Castle Peak Road Branch	G/F, 423-427 Castle Peak Road Tsuen Wan
	Tai Po Branch	Shop F, G/F, Mee Fat Building, No 34-38 Tai Wing Lane, Tai Po

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 15 December 2015 until 12:00 noon on Friday, 18 December 2015 from the Depository Counter of **HKSCC** at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of China (Hong Kong) Nominees Limited – HEC Pharmaceutical Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- Tuesday, 15 December 2015 – 9:00 a.m. to 5:00 p.m.
- Wednesday, 16 December 2015 – 9:00 a.m. to 5:00 p.m.
- Thursday, 17 December 2015 – 9:00 a.m. to 5:00 p.m.
- Friday, 18 December 2015 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 18 December 2015, the last day for applications or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Representative (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of the Company, the Representative, the Joint Global Coordinators, the Sole Sponsor, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to the Company, our H Share Registrar, receiving banks, the Representative, the Joint Global Coordinators, the Sole Sponsor, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Representative, the Joint Global Coordinators, the Sole Sponsor and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share

certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application and subject to personal collection as mentioned in this section;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company and the Representative will rely on your declarations and representations in deciding whether or not to make any allocation of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through the **White Form eIPO** service by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Terms and Conditions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" may apply through the **White Form eIPO** service for the Offer Shares to be allocated and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO service

You may submit your application through the **White Form eIPO** service at **www.eipo.com.hk** (24 hours daily, except on the last day for applications) from 9:00 a.m. on Tuesday, 15 December 2015 until 11:30 a.m. on Friday, 18 December 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 18 December 2015 or such later time under the "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Windup Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-service and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2.00 for each "YiChang HEC ChangJiang Pharmaceutical Co., Ltd." **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of "Source of DongJiang – Hong Kong Forest" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Representative and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- **agree** that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- **agree** to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- **undertake** and **confirm** that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the electronic application instructions are given for your benefit) **declare** that only one set of electronic application instructions has been given for your benefit;

- (if you are an agent for another person) **declare** that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;

- **confirm** that you understand that the Company, the Directors and the Representative will rely on your declarations and representations in deciding whether or not to make any allocation of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- **authorize** the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- **confirm** that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- **agree** that none of the Company, the Representative, the Joint Global Coordinators, the Underwriters, their respective Directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- **agree** to disclose your personal data to the Company, our H Share Registrar, receiving bank, the Representative, the Joint Global Coordinators, the Underwriters and/or its respective advisers and agents;

- **agree** (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- **agree** that any application made by HKSCC Nominees on your behalf is irrevocable before 14 January 2016 (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company

agreeing that it will not offer any Hong Kong Offer Shares to any person before 14 January 2016 (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- **agree** that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

- **agree** to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;

- **agree** with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and

- **agree** with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving electronic application instructions);

  (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;

  (b) that any award made in such arbitration shall be final and conclusive; and

(c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- **agree** with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders;

- **authorise** the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company; and

- **agree** that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- **instructed** and **authorized** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- **instructed** and **authorized** HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- **instructed** and **authorized** HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 200 Hong Kong Offer Shares. Instructions for more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Tuesday, 15 December 2015 – 9:00 a.m. to 8:30 p.m.(1)
- Wednesday, 16 December 2015 – 8:00 a.m. to 8:30 p.m.(1)
- Thursday, 17 December 2015 – 8:00 a.m. to 8:30 p.m.(1)
- Friday, 18 December 2015 – 8:00 a.m.(1) to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Tuesday, 15 December 2015 until 12:00 noon on Friday, 18 December 2015 (24 hours daily, except on the last day for applications).

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, 18 December 2015, the last day for applications or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the H Share Registrar, the receiving bank, the Representative, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last day for applications in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Sole Sponsor, the Joint Global Coordinators, the Representative and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Friday, 18 December 2015.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of Directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 200 Shares Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 200 Shares Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see "Structure of the Global Offering – Pricing and Allocation."

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 18 December 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 18 December 2015 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, 28 December 2015 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at **www.hec-changjiang.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at **www.hec-changjiang.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Monday, 28 December 2015;

- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, 28 December 2015 to 12:00 midnight on Sunday, 3 January 2016;

- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Monday, 28 December 2015 to Thursday, 31 December 2015;

- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 28 December 2015 to Wednesday, 30 December 2015 at all the designated branches of the receiving banks.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allocated to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before 14 January 2016 (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Representative, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allocation of Hong Kong Offer Shares is void:

The allocation of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Representative believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$18.50 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering – Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Monday, 28 December 2015.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allocated to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allocated to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encasement of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on Monday, 28 December 2015. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 29 December 2015 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 28 December 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Monday, 28 December 2015, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Monday, 28 December 2015, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, 28 December 2015, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

  For Hong Kong Offering Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offering Shares allocated to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 28 December 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO Service

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 28 December 2015, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, 28 December 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 28 December 2015, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allocation of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Monday, 28 December 2015. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 28 December 2015 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 28 December 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, 28 December 2015.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

The following is the text of a report, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

15 December 2015

The Directors
YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

China International Capital Corporation Hong Kong Securities Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2012, 2013 and 2014 and 30 June 2015 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for each of the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 15 December 2015 (the "Prospectus").

The Company was established as a limited liability company in the People's Republic of China (the "PRC") on 8 August 2001 under the Company Law of the PRC (中華人民共和國公司法). On 11 May 2015, the Company was converted into a joint stock limited liability company, details of which are set out in note 1(b) of Section B below. The registered office of the Company is located at Yichang City, Hubei Province of the PRC.

All companies comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods and the names of the respective auditors are set out in note 26 of Section B. The statutory financial statements of these companies were prepared in accordance with the Accounting Standards for Business Enterprises ("ASBE") issued by the Ministry of Finance of the PRC.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 were audited by KPMG Huazhen LLP (畢馬威華振會計師事務所 (特殊普通合夥)) in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Company for inclusion in the Prospectus in connection with the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 June 2015.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report and on the basis of presentation set out in Note 1(b) of section B below, a true and fair view of the financial position of the Group and the Company as at 31 December 2012, 2013 and 2014 and 30 June 2015 and the Group's financial performance and cash flows for the Relevant Periods then ended.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended 30 June 2014, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, in accordance with Hong Kong Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

1 Consolidated statements of profit or loss and other comprehensive income

	Section B Note	Year ended 31 December			Six months ended 30 June	
		2012	**2013**	**2014**	**2014**	**2015**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Turnover	*2*	269,207	316,429	440,904	242,307	382,864
Cost of sales		(115,724)	(115,968)	(119,829)	(71,124)	(98,996)
Gross profit		153,483	200,461	321,075	171,183	283,868
Other revenue	*3(a)*	40,652	66,701	54,829	27,794	4,678
Distribution costs		(25,124)	(30,599)	(60,115)	(18,357)	(40,794)
Administrative expenses		(91,416)	(117,237)	(110,312)	(59,693)	(49,835)
Other net loss	*3(b)*	(6)	(202)	(32)	–	(254)
Profit from operation		77,589	119,124	205,445	120,927	197,663
Finance costs	*4(a)*	(46,897)	(48,944)	(42,330)	(23,469)	(14,509)
Profit before taxation	*4*	30,692	70,180	163,115	97,458	183,154
Income tax	*5*	(7,684)	(12,380)	(27,772)	(15,401)	(29,906)
Profit for the year/period attributable to equity shareholders of the Company		23,008	57,800	135,343	82,057	153,248
Total comprehensive income for the year/period attributable to equity shareholders of the Company		23,008	57,800	135,343	82,057	153,248
Basic and diluted earnings per share	*8*	N/A	N/A	N/A	N/A	N/A

The accompanying notes form part of this Financial Information.

2 Consolidated statements of financial position

	Section B Note	As at 31 December 2012 *RMB'000*	2013 *RMB'000*	2014 *RMB'000*	As at 30 June 2015 *RMB'000*
Non-current assets					
Fixed assets					
– Property, plant and equipment	*9*	588,748	655,522	378,004	371,770
– Interests in leasehold land held for own use under operating leases	*9*	118,090	115,465	85,631	84,665
		706,838	770,987	463,635	456,435
Prepayments	*12*	47,353	22,463	1,804	5,097
Deferred tax assets	*18(b)*	5,932	5,103	5,847	9,627
Total non-current assets		760,123	798,553	471,286	471,159
Current assets					
Inventories	*11*	239,144	225,322	200,276	174,360
Trade and other receivables	*12*	430,470	599,319	166,415	289,012
Pledged deposits	*13*	25,000	–	25,000	3,000
Cash and cash equivalents	*14*	31,236	32,367	86,554	689,648
Current tax recoverable	*18(a)*	4,814	2,555	–	–
Total current assets		730,664	859,563	478,245	1,156,020
Current liabilities					
Trade and other payables	*15*	308,319	287,981	162,682	158,314
Loans and borrowings	*16*	327,980	462,900	270,000	297,500
Deferred income	*17*	4,379	4,379	4,379	4,379
Current tax payable	*18(a)*	–	–	8,929	17,792
Total current liabilities		640,678	755,260	445,990	477,985
Net current assets		89,986	104,303	32,255	678,035
Total assets less current liabilities		850,109	902,856	503,541	1,149,194
Non-current liabilities					
Loans and borrowings	*16*	339,980	338,270	145,000	122,500
Deferred income	*17*	89,008	85,665	81,286	79,097
Total non-current liabilities		428,988	423,935	226,286	201,597
Net assets		421,121	478,921	277,255	947,597
Capital and reserves					
Share capital	*20(b)*	170,800	170,800	170,800	360,527
Reserves	*20(c)*	250,321	308,121	106,455	587,070
Total equity		421,121	478,921	277,255	947,597

The accompanying notes form part of this Financial Information.

3 Statements of financial position

	Section B Note	As at 31 December 2012 RMB'000	2013 RMB'000	2014 RMB'000	As at 30 June 2015 RMB'000
Non-current assets					
Fixed assets					
– Property, plant and equipment	9	361,821	382,309	378,003	371,743
– Interests in leasehold land held for own use under operating leases	9	89,497	87,564	85,631	84,665
		451,318	469,873	463,634	456,408
Investments in subsidiaries	10	52,032	52,032	2,032	2,032
Prepayments	12	17,179	4,137	1,804	5,097
Deferred tax assets	18(b)	5,928	5,097	5,839	9,619
Total non-current assets		526,457	531,139	473,309	473,156
Current assets					
Inventories	11	233,484	216,086	200,142	174,360
Trade and other receivables	12	395,690	535,510	169,043	293,652
Pledged deposits	13	25,000	–	25,000	–
Cash and cash equivalents	14	27,837	29,081	81,597	685,514
Current tax recoverable	18(a)	4,825	2,559	–	–
Total current assets		686,836	783,236	475,782	1,153,526
Current liabilities					
Trade and other payables	15	116,532	111,601	162,367	158,028
Loans and borrowings	16	327,980	462,900	270,000	297,500
Deferred income	17	4,379	4,379	4,379	4,379
Current tax payable	18(a)	–	–	8,933	17,774
Total current liabilities		448,891	578,880	445,679	477,681
Net current assets		237,945	204,356	30,103	675,845
Total assets less current liabilities		764,402	735,495	503,412	1,149,001
Non-current liabilities					
Loans and borrowings	16	229,980	135,000	145,000	122,500
Deferred income	17	89,008	85,665	81,286	79,097
Total non-current liabilities		318,988	220,665	226,286	201,597
Net assets		445,414	514,830	277,126	947,404
Capital and reserves					
Share capital	20(b)	170,800	170,800	170,800	360,527
Reserves	20(c)	274,614	344,030	106,326	586,877
Total equity		445,414	514,830	277,126	947,404

The accompanying notes form part of the Financial Information.

4 Consolidated statements of changes in equity

	Section B Note	**Share capital** *RMB'000* *Note 20(b)*	**Capital reserve** *RMB'000* *Note 20(c)(i)*	**Statutory reserve** *RMB'000* *Note 20(c)(ii)*	**Retained earnings** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2012		170,800	8,064	97,726	121,523	398,113
Changes in equity for 2012:						
Total comprehensive income for the year		–	–	–	23,008	23,008
At 31 December 2012 and 1 January 2013		170,800	8,064	97,726	144,531	421,121
Changes in equity for 2013:						
Total comprehensive income for the year		–	–	–	57,800	57,800
At 31 December 2013 and 1 January 2014		170,800	8,064	97,726	202,331	478,921
Changes in equity for 2014:						
Total comprehensive income for the year		–	–	–	135,343	135,343
Deemed shareholder contribution	*19*	–	–	–	52,991	52,991
Dividends approved	*20(e)*	–	–	–	(390,000)	(390,000)
At 31 December 2014		170,800	8,064	97,726	665	277,255
Changes in equity for the six months ended 30 June 2015:						
Total comprehensive income for the period		–	–	–	153,248	153,248
Conversion to joint stock limited liability company	*20(b)(ii)*	129,200	(635)	(97,722)	(30,843)	–
Capital injection	*20(b)(iii)*	60,527	456,567	–	–	517,094
At 30 June 2015		360,527	463,996	4	123,070	947,597
(Unaudited)						
At 1 January 2014		170,800	8,064	97,726	202,331	478,921
Changes in equity for the six months ended 30 June 2014:						
Total comprehensive income for the period		–	–	–	82,057	82,057
At 30 June 2014		170,800	8,064	97,726	284,388	560,978

The accompanying notes form part of the Financial Information.

5 Consolidated cash flow statements

	Section B Note	Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities						
Cash generated from operations	*14(b)*	98,209	60,838	146,910	176,049	164,886
PRC income tax paid	*18(a)*	(19,687)	(9,292)	(17,032)	(10,228)	(24,823)
Net cash generated from operating activities		78,522	51,546	129,878	165,821	140,063
Investing activities						
Interest received		346	513	242	140	1,310
Payment for purchase of property, plant and equipment		(140,238)	(76,438)	(35,470)	(30,966)	(15,450)
Proceeds received from disposal of property, plant and equipment		43	3,307	73	–	–
Net cash outflow in respect of disposal of a subsidiary	*19*	–	–	(3,186)	–	–
Net cash used in investing activities		(139,849)	(72,618)	(38,341)	(30,826)	(14,140)
Financing activities						
Proceeds from issuance of shares		–	–	–	–	517,094
Proceeds of bank loans		555,953	461,270	294,310	30,000	50,000
Repayments of bank loans		(374,320)	(328,060)	(462,940)	(197,400)	(45,000)
Advances to related parties		(122,667)	(61,528)	–	–	(31,110)
Repayment of advances from related parties		–	–	173,881	73,551	–
Interest paid		(42,212)	(49,479)	(42,601)	(25,569)	(13,813)
Net cash generated from/ (used in) financing activities		16,754	22,203	(37,350)	(119,418)	477,171
Net (decrease)/increase in cash and cash equivalents		(44,573)	1,131	54,187	15,577	603,094
Cash and cash equivalents at 1 January		75,809	31,236	32,367	32,367	86,554
Cash and cash equivalents at 31 December/30 June		31,236	32,367	86,554	47,944	689,648

The accompanying notes form part of the Financial Information.

B NOTES TO CONSOLIDATED FINANCIAL INFORMATION

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with all applicable IFRSs, which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and interpretations issued by the IASB. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all applicable new and revised IFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the Relevant Period. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 27.

The Financial Information also complies with the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2014 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Financial Information.

(b) Basis of presentation

The Company was formerly named as Yichang Changjiang Pharmaceutical Company Limited (宜昌長江藥業有限公司, "Changjiang Pharma"), which was established as a limited liability company in Yichang City, Hubei Province, the PRC on 8 August 2001 by Shenzhen HEC Industrial Development Co., Ltd. (深圳市東陽光實業發展有限公司, "Shenzhen HEC Industrial") and North & South Brothers International Investment H.K. Co., Ltd. ("North & South Brothers Investment"). Shenzhen HEC Industrial and North & South Brothers Investment held 75% and 25% equity interest in the Company respectively. On 22 December 2009, Shenzhen HEC Industrial transferred its 75% equity interests in the Company to its subsidiary, HEC Pharm Co., Ltd (宜昌東陽光藥業股份有限公司, "HEC Pharm") and HEC Pharm became the controlling shareholder of the Company. On 31 March 2015, North & South Brothers Investment transferred its 25% equity interests in the Company to its subsidiary, North & South Brothers Pharmacy Investment Company Ltd. ("North & South Brothers Pharma").

After a series of equity transfer transaction, HEC Pharm and North & South Brothers Pharma held 75% and 25% equity interest in the Company respectively, on 11 May 2015.

On 11 May 2015, the Company was converted into a joint stock limited liability company and with a registered capital of RMB300,000,000 in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. Upon completion of this conversion, the Company changed its name to YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (宜昌東陽光長江藥業股份有限公司) and HEC Pharm and North & South Brothers Pharma held 225,000,000 and 75,000,000 issued share of the Company, respectively.

As a part of the reorganisation of the Company in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the Company transferred its 100% equity interests in Ruyuan HEC Pharmaceutical Co., Ltd. (乳源東陽光藥業有限公司, "Ruyuan HEC Pharma") to HEC Pharm on 29 September 2014. The principal activities of Ruyuan HEC Pharma are manufacturing and sales of active pharmaceutical ingredient. The transaction has been accounted for as a disposal of entity under common control as both the Company and HEC Pharm are controlled by Shenzhen HEC Industrial. Accordingly, the relevant assets and liabilities of Ruyuan HEC Pharma have been derecognized at their historical cost, with the difference between the considerations received and net assets transferred by the Company being recognised in retained earnings upon the completion of transfer.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of financial position, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group as set out in Section A comprise the Company and its subsidiaries. All material intra-group transactions and balances have been eliminated on consolidation.

As at 30 June 2015, the Company has direct or indirect interests in the following subsidiary, which is a private company, particulars of which are set out below:

Name of company	Place and date of establishment	Issued and fully paid up/ registered capital	Proportion of direct ownership interest	Principal activities
Yichang HEC Pharmaceutical Co., Ltd. ("Yichang HEC Pharmaceutical") (宜昌東陽光醫藥有限公司)*	the PRC/ 8 July 2005	RMB2,000,000	100%	Sales of pharmaceutical products

* The official name of the entity is in Chinese. The English translation of the entity's name is for reference only.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand. It is prepared on the historical cost basis.

(d) Use of estimates and judgements

The preparation of Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 25.

(e) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statements of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(f) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 1(i)):

- Buildings held for own use which are situated on leasehold land classified as held under operating leases (Note 1(h)); and

- Other items of property, plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

- Machinery and equipment 15 years

- Motor vehicles 10 years

- Office equipment and others 5 – 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction, and is stated at cost less impairment losses (Note 1(i)). Cost comprises direct costs of construction during the construction period. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially complete and ready for its intended use. No depreciation is provided in respect of construction in progress.

(g) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(h) Leasehold land held for own use under operating leases

Leasehold land held for own use under operating leases represent cost of land use rights paid to the PRC government authorities. Land use rights are stated as cost less accumulated amortisation and impairment losses (Note 1(i)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of the rights.

(i) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated at amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognized as follows. For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses recognised in respect of trade and other receivables, whose recovery is considered doubtful but not remote, are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased.

- Property, plant and equipment;
- Interest in leasehold land held for own use under operating leases;
- Prepayments; and
- Investments in subsidiaries of the Company.

If any such indication exists, the asset's recoverable amount is estimated.

- *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, expect that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (Note 1(i)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within six months of maturity at acquisition.

(o) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Annual contributions to retirement benefit schemes operated by the government in the PRC are recognised in the profit or loss as and when incurred.

(p) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the statements of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset by way of recognized in other revenues.

(iv) Service income

Service income is recognised when the relevant services are rendered.

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance on sales of pharmaceutical products. Therefore, management considers there to be only one operating segment under the requirements of IFRS 8, Operating Segments. In this regard, no segment information is presented for the Relevant Periods.

No geographic information is shown as the Group's operating profit is entirely derived from activities of manufacture and sale of pharmaceutical products in the PRC.

2 TURNOVER

The principal activities of the Group are manufacturing and sales of pharmaceuticals.

Revenue represents the sales value of goods supplied to customers. Revenue excludes sales taxes and surcharges and is after deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the Relevant Periods is as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* **(unaudited)**	*RMB'000*
Anti-viral drugs	13,488	75,417	199,414	128,161	272,461
Endocrine and metabolic drugs	19,361	25,522	32,514	13,452	15,919
Cardiovascular drugs	97,024	98,311	106,209	49,747	50,310
Others	139,334	117,179	102,767	50,947	44,174
	269,207	316,429	440,904	242,307	382,864

The Group's customer base is diversified and included only one customer with whom transactions have exceeded 10% of the Group's revenues for the year ended 31 December 2014 and the six months ended 30 June 2014 and 2015, including sales to entities which are known to the Group under common control with this customer. Revenues from this customer amounted to approximately RMB78,005,000, RMB46,932,000 (unaudited) and RMB107,362,000 for the year ended 31 December 2014 and the six months ended 30 June 2014 and 2015 respectively. No revenue from the single customer contributed more than 10% of the turnover of the Group for the year ended 31 December 2012 and 2013. Details of concentrations of credit risk arising from this customer are set out in Note 21(a).

3 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* **(unaudited)**	*RMB'000*
Government grants					
– Unconditional subsidies	50	–	323	274	–
– Conditional subsidies *(Note 17)*	5,529	4,379	4,379	2,023	2,189
Interest income	15,006	22,556	21,301	8,969	1,310
Research service income	19,778	38,555	28,707	16,494	1,129
Others	289	1,211	119	34	50
	40,652	66,701	54,829	27,794	4,678

(b) Other net loss

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Gain/(loss) on disposal of fixed assets	30	(185)	(5)	–	13
Others	(36)	(17)	(27)	–	(267)
	(6)	(202)	(32)	–	(254)

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Interest expenses	52,567	61,984	53,163	30,498	14,509
Less: interest expense capitalised into construction in progress*	(5,670)	(13,040)	(10,833)	(7,029)	–
	46,897	48,944	42,330	23,469	14,509

* The borrowing costs have been capitalised at an annual rate of 6% – 7.59%, 6% – 6.88%, 6% – 6.88%, 6% – 6.88% and nil for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015 respectively.

(b) Staff costs

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Salaries, wages, bonuses and benefits	39,784	48,761	49,274	26,139	22,259
Contribution to retirement schemes	3,493	3,442	3,586	1,827	1,915
	43,277	52,203	52,860	27,966	24,174

Staff costs includes directors', supervisors' and senior management's remuneration (Note 6 and Note 7).

Pursuant to the relevant labour rules and regulations in the PRC, the Company and its subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the local government authorities whereby the Company and its subsidiaries in the PRC are required to make contributions to the Schemes based on certain percentages of the eligible employee's salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

(c) Other items

	Note	Year ended 31 December 2012 RMB'000	2013 RMB'000	2014 RMB'000	Six months ended 30 June 2014 RMB'000 (unaudited)	2015 RMB'000
Depreciation	9	25,222	29,568	31,945	17,011	12,796
Auditor's remuneration		100	377	500	250	100
Impairment losses on trade and other receivables		298	2,510	2,766	2,365	7,919
Operating lease charges		3,327	934	500	231	74
Research and development cost#		63,350	81,275	73,584	40,876	21,185
Cost of inventories*	11	114,748	107,334	98,983	56,931	69,093
Listing expenses		–	–	–	–	5,134

During the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, research and development cost include RMB25,565,000, RMB30,789,000, RMB30,701,000, RMB18,816,000 (unaudited) and RMB9,966,000 relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 4(b) for each of these types of expenses.

* During the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, cost of inventories include RMB17,820,000, RMB20,353,000, RMB22,218,000, RMB9,858,000 (unaudited) and RMB12,840,000 relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 4(b) for each of these types of expenses.

5 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Income tax in the consolidated statements of profit or loss and other comprehensive income represents:

	Year ended 31 December 2012 RMB'000	2013 RMB'000	2014 RMB'000	Six months ended 30 June 2014 RMB'000 (unaudited)	2015 RMB'000
Current tax					
Provision for PRC corporate income tax *(note 18)*	7,498	11,551	28,516	17,294	33,686
Deferred tax					
Origination and reversal of temporary differences	186	829	(744)	(1,893)	(3,780)
Total income tax	7,684	12,380	27,772	15,401	29,906

(b) Reconciliation between income tax expense and accounting profit at applicable tax rates:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* **(unaudited)**	*RMB'000*
Profit before taxation	30,692	70,180	163,115	97,458	183,154
Applicable tax rate *(i)*	25%	25%	25%	25%	25%
Notional tax on profit before taxation	7,673	17,545	40,779	24,365	45,789
Effect of non-deductible expenses	709	120	3,053	344	2,424
Effect of preferential tax rate *(ii)*	(4,659)	(8,178)	(18,007)	(10,799)	(18,307)
Effect of bonus deduction of research and development expenses *(iii)*	–	–	(2,249)	(1,125)	–
Effect of tax losses not recognised	3,961	2,893	4,196	2,616	–
Income tax expenses	7,684	12,380	27,772	15,401	29,906

(i) The PRC corporate income tax rate is 25%.

(ii) The PRC Corporate Income Tax Law allows enterprises to apply for the certificate of "High and New Technology Enterprise" ("HNTE") which entitles the qualified companies to a preferential income tax rate of 15%. The Company is qualified as a HNTE in 2011 and the qualification was valid for three years from 2011 to 2013. The qualification was renewed in 2014 and the valid period is extended to 2016. Therefore, the Company was entitled to a preferential income tax rate of 15% for the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015.

Yichang HEC Pharmaceutical was qualified as a Small Micro-Size Enterprise (小微企業), which entitled to a preferential income tax rate of 10% for the for the year ended 31 December 2014 and the six months ended 30 June 2014 and 2015.

Other PRC subsidiary is subject to the PRC statutory corporate income tax rate of 25%.

(iii) According to relevant tax rules in the PRC, qualified research and development expenses ("R&D expenses"), which are not capitalised, are allowed for bonus deduction for income tax purpose, i.e. an additional 50% of such expenses could be deemed as deductible expenses.

6 DIRECTORS' AND SUPERVISORS' REMUNERATION

	For the year ended 31 December 2012				
	Directors' fees	Salaries, allowances and benefits in kind	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Mr. Wang Danjin	–	139	9	36	184
Non-executive directors					
Mr. Zhu Yingwei	–	–	–	–	–
Mr. Lou Wangjun	–	–	–	–	–
Total	–	139	9	36	184

	For the year ended 31 December 2013				
	Directors' fees	Salaries, allowances and benefits in kind	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Mr. Wang Danjin	–	141	10	36	187
Non-executive directors					
Mr. Zhu Yingwei	–	–	–	–	–
Mr. Lou Wangjun	–	–	–	–	–
Total	–	141	10	36	187

	For the year ended 31 December 2014				
	Directors' fees	Salaries, allowances and benefits in kind	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Mr. Wang Danjin	–	143	11	36	190
Non-executive directors					
Mr. Zhu Yingwei	–	–	–	–	–
Mr. Lou Wangjun	–	–	–	–	–
Total	–	143	11	36	190

	For the six months ended 30 June 2015				
	Directors' fees	Salaries, allowances and benefits in kind	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Jiang Juncai	–	22	2	–	24
Mr. Wang Danjin	–	71	6	9	86
Mr. Chen Yangui	–	28	4	–	32
Non-executive directors					
Mr. Zhu Yingwei	–	–	–	–	–
Mr. Tang Xinfa	–	–	–	–	–
Mr. Mao Kit	–	–	–	–	–
Mr. Lou Wangjun	–	–	–	–	–
Independent non-executive directors					
Mr. Tang Jianxin	13	–	–	–	13
Mr. Fu Hailiang	13	–	–	–	13
Mr. Lee Chi Ming	27	–	–	–	27
Supervisors					
Ms. Huang Fangfang	–	–	–	–	–
Ms. Xue Lian	–	18	2	–	20
Mr. Lin Jian	–	–	–	–	–
Total	53	139	14	9	215

	For the six months ended 30 June 2014 (unaudited)				
	Directors' fees	Salaries, allowances and benefits in kind	Contributions to defined contribution retirement plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive director					
Mr. Wang Danjin	–	71	5	–	76
Non-executive directors					
Mr. Zhu Yingwei	–	–	–	–	–
Mr. Lou Wangjun	–	–	–	–	–
Total	–	71	5	–	76

Mr. Zhu Yingwei was appointed as a non-executive director on 8 August 2001. Mr. Wang Danjin was appointed as an executive director on 27 February 2006.

Mr. Jiang Juncai and Mr. Chen Yangui were appointed as executive directors on 4 May 2015.

Mr. Tang Xinfa and Mr. Mao Kit were appointed as non-executive directors on 4 May 2015.

Mr. Tang Jianxin, Mr. Fu Hailiang and Mr. Lee Chi Ming were appointed as independent non-executive directors on 4 May 2015.

Ms. Huang Fangfang, Ms. Xue Lian and Mr. Lin Jian were appointed as supervisors on 4 May 2015.

Mr. Lou Wangjun resigned as non-executive director on 11 May 2015.

During the Relevant Periods, there were no amounts paid or payable by the Group to the directors, the supervisors or any of the highest paid individuals set out in Note 7 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The number of directors or supervisors and non-directors or supervisors included in the five highest paid individuals for the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2014 and 2015 are set out below:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* **(unaudited)**	*RMB'000*
Directors or supervisors	1	1	1	1	3
Non-directors or supervisors	4	4	4	4	2
	5	5	5	5	5

The aggregate emoluments of one director for each of the years ended 31 December 2012, 2013 and 2014, the six months ended 30 June 2014 and three directors for the six months ended 30 June 2015 are disclosed in Note 6. The aggregate emoluments in respect of the remaining individuals are as follows:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* **(unaudited)**	*RMB'000*
Salaries, wages, bonuses and benefits	683	762	790	311	138
Contribution to retirement schemes	22	34	42	17	10
	705	796	832	328	148

The emoluments of the above individuals with the highest emoluments are within the following band:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	Numbers of individuals	*Numbers of individuals*	*Numbers of individuals*	*Numbers of individuals* **(unaudited)**	*Numbers of individuals*
Nil to HKD1,000,000	4	4	4	4	2

8 EARNINGS PER SHARE

Earnings per share information is not presented for the years ended 31 December 2012, 2013 and 2014 and for the six months ended 30 June 2014 and 2015 as its inclusion, for the purpose of the Financial Information, is not considered meaningful due to the conversion of the Company from a limited liability company to a joint stock limited liability company on 11 May 2015 as disclosed in note 1(b).

9 FIXED ASSETS

	The Group							
	Plant and Buildings *RMB'000*	**Machinery and equipment** *RMB'000*	**Office equipment and others** *RMB'000*	**Motor vehicles** *RMB'000*	**Construction in progress** *RMB'000*	**Sub-total** *RMB'000*	**Interest in leasehold land held for own use under operating leases** *RMB'000*	**Total** *RMB'000*
Cost:								
At 1 January 2012	273,375	134,268	43,683	766	99,252	551,344	108,850	660,194
Additions	18,456	12,018	11,057	–	56,839	98,370	17,514	115,884
Transfer from construction in progress	15,404	18,943	2,076	–	(36,423)	–	–	–
Disposal	–	(5)	(85)	–	–	(90)	–	(90)
At 31 December 2012	307,235	165,224	56,731	766	119,668	649,624	126,364	775,988
Additions	1,449	5,809	5,224	52	83,217	95,751	–	95,751
Transfer from construction in progress	51,303	44,716	7,945	–	(103,964)	–	–	–
Disposal	–	(3,816)	(127)	–	(73)	(4,016)	–	(4,016)
At 31 December 2013	359,987	211,933	69,773	818	98,848	741,359	126,364	867,723
Additions	3,433	2,896	5,098	–	39,670	51,097	–	51,097
Transfer from construction in progress	6,970	10,850	5,214	–	(23,034)	–	–	–
Disposal	–	(38)	(52)	–	(34)	(124)	–	(124)
Disposals of a subsidiary	(131,054)	(47,265)	(27,373)	(171)	(112,516)	(318,379)	(29,655)	(348,034)
At 31 December 2014	239,336	178,376	52,660	647	2,934	473,953	96,709	570,662
Additions	1,905	2,091	999	–	5,741	10,736	–	10,736
Transfer from construction in progress	2,971	1,457	343	–	(4,771)	–	–	–
Disposal	–	(4,106)	(1,973)	–	–	(6,079)	–	(6,079)
At 30 June 2015	244,212	177,818	52,029	647	3,904	478,610	96,709	575,319
Accumulated depreciation:								
At 1 January 2012	(13,990)	(14,911)	(9,235)	(134)	–	(38,270)	(5,735)	(44,005)
Charge for the year	(8,337)	(8,580)	(5,697)	(69)	–	(22,683)	(2,539)	(25,222)
Written-off on disposals	–	3	74	–	–	77	–	77
At 31 December 2012	(22,327)	(23,488)	(14,858)	(203)	–	(60,876)	(8,274)	(69,150)
Charge for the year	(9,672)	(10,449)	(6,750)	(72)	–	(26,943)	(2,625)	(29,568)
Written-off on disposals	–	1,943	39	–	–	1,982	–	1,982
At 31 December 2013	(31,999)	(31,994)	(21,569)	(275)	–	(85,837)	(10,899)	(96,736)
Charge for the year	(9,964)	(12,372)	(7,087)	(70)	–	(29,493)	(2,452)	(31,945)
Written-off on disposals	–	13	34	–	–	47	–	47
Written-off on disposals of a subsidiary	7,787	5,040	6,464	43	–	19,334	2,273	21,607
At 31 December 2014	(34,176)	(39,313)	(22,158)	(302)	–	(95,949)	(11,078)	(107,027)
Charge for the period	(3,713)	(5,433)	(2,655)	(29)	–	(11,830)	(966)	(12,796)
Written-off on disposals	–	444	495	–	–	939	–	939
At 30 June 2015	(37,889)	(44,302)	(24,318)	(331)	–	(106,840)	(12,044)	(118,884)
Carrying amount:								
At 31 December 2012	284,908	141,736	41,873	563	119,668	588,748	118,090	706,838
At 31 December 2013	327,988	179,939	48,204	543	98,848	655,522	115,465	770,987
At 31 December 2014	205,160	139,063	30,502	345	2,934	378,004	85,631	463,635
At 30 June 2015	206,323	133,516	27,711	316	3,904	371,770	84,665	456,435

	The Company							
	Plant and Buildings	Machinery	Office equipment and others	Motor vehicles	Construction in progress	Sub-total	Interest in leasehold land held for own use under operating leases	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:								
At 1 January 2012	201,056	119,026	35,264	647	25,242	381,235	96,709	477,944
Additions	18,401	7,280	4,104	–	6,532	36,317	–	36,317
Transfer from construction in progress	5,297	18,943	1,939	–	(26,179)	–	–	–
Disposal	–	(5)	(85)	–	–	(90)	–	(90)
At 31 December 2012	224,754	145,244	41,222	647	5,595	417,462	96,709	514,171
Additions	228	5,738	765	–	35,645	42,376	–	42,376
Transfer from construction in progress	4,302	19,601	3,902	–	(27,805)	–	–	–
Disposal	–	(3,755)	(30)	–	(73)	(3,858)	–	(3,858)
At 31 December 2013	229,284	166,828	45,859	647	13,362	455,980	96,709	552,689
Additions	3,409	2,020	3,430	–	9,207	18,066	–	18,066
Transfer from construction in progress	6,643	9,560	3,413	–	(19,616)	–	–	–
Disposal	–	(32)	(52)	–	(19)	(103)	–	(103)
At 31 December 2014	239,336	178,376	52,650	647	2,934	473,943	96,709	570,652
Additions	1,905	2,091	973	–	5,741	10,710	–	10,710
Transfer from construction in progress	2,971	1,457	343	–	(4,771)	–	–	–
Disposal	–	(4,106)	(1,973)	–	–	(6,079)	–	(6,079)
At 30 June 2015	244,212	177,818	51,993	647	3,904	478,574	96,709	575,283
Accumulated depreciation:								
At 1 January 2012	(13,990)	(14,866)	(8,822)	(126)	–	(37,804)	(5,279)	(43,083)
Charge for the year	(6,266)	(7,495)	(4,095)	(58)	–	(17,914)	(1,933)	(19,847)
Written-off on disposals	–	3	74	–	–	77	–	77
At 31 December 2012	(20,256)	(22,358)	(12,843)	(184)	–	(55,641)	(7,212)	(62,853)
Charge for the year	(6,900)	(8,618)	(4,421)	(58)	–	(19,997)	(1,933)	(21,930)
Written-off on disposals	–	1,939	28	–	–	1,967	–	1,967
At 31 December 2013	(27,156)	(29,037)	(17,236)	(242)	–	(73,671)	(9,145)	(82,816)
Charge for the year	(7,020)	(10,286)	(4,947)	(60)	–	(22,313)	(1,933)	(24,246)
Written-off on disposals	–	10	34	–	–	44	–	44
At 31 December 2014	(34,176)	(39,313)	(22,149)	(302)	–	(95,940)	(11,078)	(107,018)
Charge for the period	(3,713)	(5,433)	(2,655)	(29)	–	(11,830)	(966)	(12,796)
Written-off on disposals	–	444	495	–	–	939	–	939
At 30 June 2015	(37,889)	(44,302)	(24,309)	(331)	–	(106,831)	(12,044)	(118,875)
Carrying amount:								
At 31 December 2012	204,498	122,886	28,379	463	5,595	361,821	89,497	451,318
At 31 December 2013	202,128	137,791	28,623	405	13,362	382,309	87,564	469,873
At 31 December 2014	205,160	139,063	30,501	345	2,934	378,003	85,631	463,634
At 30 June 2015	206,323	133,516	27,684	316	3,904	371,743	84,665	456,408

(i) All property, plant and equipment owned by the Group are located in the PRC.

(ii) As at 31 December 2012, 2013 and 2014 and 30 June 2015, the Group was applying for certificates of ownership for certain properties, with carrying value of RMB7,326,000, RMB10,526,000, RMB10,359,000 and RMB10,165,000 respectively. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

(iii) Certain of the Group's interest-bearing loans were secured by certain buildings, machinery and interests in leasehold land held for own use under operating leases, which had an aggregate carrying amount of RMB246,893,000, RMB262,042,000, RMB115,975,000 and RMB113,917,000 as of 31 December 2012, 2013, 2014 and 30 June 2015 respectively (note 16).

10 INVESTMENTS IN SUBSIDIARIES

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost				
Yichang HEC Pharmaceutical *(i)*	2,032	2,032	2,032	2,032
Ruyuan HEC Pharma *(ii)*	50,000	50,000	–	–
	52,032	52,032	2,032	2,032

(i) See details of the subsidiaries of the Group during the Relevant Periods in note 1(b).

(ii) On 2 September 2014, the Company increased its investment in Ruyuan HEC Pharma by RMB50,000,000. On 29 September 2014, 100% equity interests of Ruyuan HEC Pharma were transferred at consideration of RMB100,000,000 to HEC Pharm, which is the controlling shareholder company of the Company (note 19).

11 INVENTORIES

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	221,757	200,679	175,426	134,801
Work in progress	9,939	10,636	7,714	11,257
Finished goods	7,448	14,007	17,136	28,302
	239,144	225,322	200,276	174,360

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	216,103	191,481	175,426	134,801
Work in progress	9,939	10,636	7,714	11,257
Finished goods	7,442	13,969	17,002	28,302
	233,484	216,086	200,142	174,360

The analysis of the amount of inventories recognised as an expense and included in profit and loss is as follows:

The Group

		Year ended 31 December			Six months ended 30 June	
	Note	2012	2013	2014	2014	2015
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Carrying amount of inventories sold		116,376	107,273	98,909	56,324	69,093
Write down of inventories		–	61	74	607	–
Reversal of write down of inventories		(1,628)	–	–	–	–
Cost of inventories	*4(c)*	114,748	107,334	98,983	56,931	69,093

12 TRADE AND OTHER RECEIVABLES

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Trade receivables	44,027	66,213	112,940	246,827
Bills receivable	41,390	76,639	26,471	22,548
Less: allowance for doubtful debts *(note 12(b))*	(2,650)	(3,916)	(6,283)	(14,132)
	82,767	138,936	133,128	255,243
Amounts due from related parties	323,487	427,638	26,689	29,040
Prepayments	5,971	6,707	3,558	2,344
Other receivables	18,245	26,038	3,040	2,385
	430,470	599,319	166,415	289,012
Non-current				
Prepayments	47,353	22,463	1,804	5,097
Total	477,823	621,782	168,219	294,109

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Trade receivables	43,757	65,671	112,369	245,919
Bills receivable from third parties	41,390	76,639	26,471	22,548
Less: allowance for doubtful debts *(note 12(b))*	(2,636)	(3,888)	(6,250)	(14,099)
	82,511	138,422	132,590	254,368
Amount due from subsidiary	–	466	3,180	5,542
Amount due from related parties	307,356	387,758	26,689	29,034
Prepayments	4,247	6,506	3,558	2,325
Other receivables	1,576	2,358	3,026	2,383
	395,690	535,510	169,043	293,652
Non-current				
Prepayments	17,179	4,137	1,804	5,097
Total	412,869	539,647	170,847	298,749

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables and bills receivable (which are included in trade and other receivables), based on the invoice date and net off allowance for doubtful debts, is as follows:

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	73,706	121,682	100,505	215,292
More than 3 months but within 1 year	9,061	17,254	32,623	39,951
	82,767	138,936	133,128	255,243

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	73,563	121,439	99,393	214,812
More than 3 months but within 1 year	8,948	16,983	33,197	39,556
	82,511	138,422	132,590	254,368

Trade receivables are generally due within 30-90 days from the date of billing. Bills receivable is due in 3 months or 6 months from the date of billing. The Group's credit policy is set out in note 21(a). All of the trade and other receivables of the Group and the Company are expected to be recovered within one year.

(b) Impairment of trade receivables and bills receivable

The movement in the allowance for doubtful debts during the Relevant Periods is as follows:

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	2,227	2,650	3,916	6,283
Impairment loss recognised	423	1,266	2,367	7,849
	2,650	3,916	6,283	14,132

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	2,217	2,636	3,888	6,250
Impairment loss recognised	419	1,252	2,362	7,849
	2,636	3,888	6,250	14,099

At 31 December 2012, 2013 and 2014 and 30 June 2015 respectively, trade receivables and bills receivable of RMB2,746,000, RMB5,053,000, RMB8,619,000 and RMB15,102,000 were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB2,650,000, RMB3,916,000, RMB6,283,000 and RMB14,132,000 were recognised.

(c) The ageing analysis of trade receivables and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not past due	73,439	120,964	97,963	213,614
Less than 3 months past due	8,119	12,653	23,821	33,446
More than 3 months but within 1 year past due	1,113	4,182	9,008	7,213
	82,671	137,799	130,792	254,273

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Not past due	73,296	120,721	97,948	213,136
Less than 3 months past due	8,001	12,578	23,817	33,260
More than 3 months but within 1 year past due	1,105	3,970	8,992	7,018
	82,402	137,269	130,757	253,414

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

13 PLEDGED DEPOSITS

The amount represents bank deposits pledged to secure certain bills payable as at 31 December 2012 and 2014 and 30 June 2015 (see Note 15).

14 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash in hand	131	239	638	423
Cash at bank	31,105	32,128	85,916	689,225
	31,236	32,367	86,554	689,648

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash in hand	113	180	621	415
Cash at bank	27,724	28,901	80,976	685,099
	27,837	29,081	81,597	685,514

(b) Reconciliation of profit before taxation to cash generated from operations:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before taxation	30,692	70,180	163,115	97,458	183,154
Adjustments for					
Depreciation	25,222	29,568	31,945	17,011	12,796
Interest income	(15,006)	(22,556)	(21,301)	(8,969)	(1,310)
Impairment loss on trade and other receivables	298	2,510	2,766	2,365	7,919
Finance costs	46,897	48,944	42,330	23,469	14,509
(Gain)/loss on disposal of fixed assets	(30)	185	5	–	(13)
Changes in working capital					
(Increase)/decrease in inventories	(9,126)	13,822	13,941	(91,494)	25,916
Decrease/(increase) in trade and other receivables	12,704	(67,541)	(84,756)	114,846	(123,356)
Increase/(decrease) in trade and other payables	6,558	(14,274)	(1,135)	21,363	45,271
Cash generated from operations	98,209	60,838	146,910	176,049	164,886

15 Trade and other payables

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(note (b))*	43,808	35,621	28,081	24,813
Bills payable *(note (a))*	25,000	–	25,000	–
Trade and bills payables	68,808	35,621	53,081	24,813
Amount due to related parties	187,695	208,925	51,443	27,505
Receipts in advance	7,628	6,243	8,194	7,816
VAT and other taxes payable	3,664	5,981	7,077	15,870
Accrued payroll and benefits	7,061	9,557	12,313	9,236
Other payables and accruals	33,463	21,654	30,574	73,074
	308,319	287,981	162,682	158,314

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables *(note (b))*	35,918	28,248	28,081	24,795
Bills payable *(note (a))*	25,000	–	25,000	–
Trade and bills payables	60,918	28,248	53,081	24,795
Amount due to related parties	11,702	48,809	51,443	27,505
Receipts in advance	7,413	5,956	7,902	7,615
VAT and other taxes payable	3,620	5,129	7,074	15,839
Accrued payroll and benefits	5,034	7,244	12,293	9,200
Other payables and accruals	27,845	16,215	30,574	73,074
	116,532	111,601	162,367	158,028

(a) Certain bills payable of the Group and the Company as at 31 December 2012 and 2014 were secured by pledged deposits of RMB25,000,000. (see note 13)

As at 30 June 2015, a bills payable of Yichang HEC Pharmaceutical to the Company were secured by pledged deposits of RMB3,000,000. (see note 13)

(b) An ageing analysis of the trade payables based on the invoice date is as follows:

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	34,524	24,449	20,729	19,795
Over 1 month but within 3 months	3,807	3,597	2,939	2,655
Over 3 months but within 1 year	3,213	5,027	2,151	171
Over 1 year	2,264	2,548	2,262	2,192
	43,808	35,621	28,081	24,813

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 month	32,020	22,509	20,729	19,777
Over 1 month but within 3 months	1,569	1,415	2,939	2,655
Over 3 months but within 1 year	392	2,175	2,151	171
Over 1 year	1,937	2,149	2,262	2,192
	35,918	28,248	28,081	24,795

16 LOANS AND BORROWINGS

As at 31 December 2012, 2013 and 2014 and 30 June 2015, the loans and borrowings were repayable as follows:

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	327,980	462,900	270,000	297,500
After 1 year but within 2 years	94,980	30,000	55,000	32,500
After 2 years	245,000	308,270	90,000	90,000
Subtotal	339,980	338,270	145,000	122,500
Total	667,960	801,170	415,000	420,000

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year or on demand	327,980	462,900	270,000	297,500
After 1 year but within 2 years	94,980	30,000	55,000	32,500
After 2 years	135,000	105,000	90,000	90,000
Subtotal	229,980	135,000	145,000	122,500
Total	557,960	597,900	415,000	420,000

At 31 December 2012, 2013 and 2014 and 30 June 2015, the bank loans were secured as follows:

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– Secured	458,000	551,270	415,000	370,000
– Unsecured	209,960	249,900	–	50,000
	667,960	801,170	415,000	420,000

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans				
– Secured	348,000	348,000	415,000	370,000
– Unsecured	209,960	249,900	–	50,000
	557,960	597,900	415,000	420,000

At 31 December 2012, 2013 and 2014 and 30 June 2015, the banking facilities of the Group were secured by certain buildings, machinery and interests in leasehold land with an aggregate carrying amount of RMB246,893,000, RMB262,042,000, RMB115,975,000 and RMB113,917,000 as of 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. The banking facilities amounted to RMB930,000,000, RMB890,000,000, RMB480,000,000 and RMB500,000,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015, which were utilized to the extent of RMB668,000,000, RMB801,270,000, RMB430,000,000 and RMB450,000,000, respectively.

As at 31 December 2012, 2013 and 2014 and 30 June 2015, bank loans of the Group of RMB508,000,000, RMB661,270,000, RMB415,000,000 and RMB420,000,000 were guaranteed by Shenzhen HEC Industrial and its subsidiary, Mr. Zhang Zhongneng, who is the director of the Shenzhen HEC Industrial, and his spouse Ms. Guo Meilan.

As at 31 December 2012, 2013 and 2014 and 30 June 2015, none of the banking facilities were subject to the fulfillment of covenants relating to any of the balance sheet ratios of the Group. Further details of the Group's management of liquidity risk are set out in note 21(b).

17 DEFERRED INCOME

The Group and the Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	97,936	93,387	90,044	85,665
Additions	980	1,036	–	–
Credited to profit or loss *(note 3(a))*	(5,529)	(4,379)	(4,379)	(2,189)
	93,387	90,044	85,665	83,476
Net carrying amounts representing:				
Current portion	4,379	4,379	4,379	4,379
Non-current portion	89,008	85,665	81,286	79,097
	93,387	90,044	85,665	83,476

As at 31 December 2012, 2013 and 2014 and 30 June 2015, deferred incomes of the Group mainly included various conditional government grants for research and development projects of new or existing pharmaceutical products and subsidies relating to purchase of fixed assets.

Deferred incomes relating to purchase of fixed assets are recognised as income on a straight-line basis over the expected useful life of the relevant assets.

18 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Provision of PRC corporate income tax for the year/period *(note 5(a))*	7,498	11,551	28,516	33,686
PRC corporate income tax paid during the year/period	(19,687)	(9,292)	(17,032)	(24,823)
	(12,189)	2,259	11,484	8,863
Balance of PRC corporate income tax at 1 January	7,375	(4,814)	(2,555)	8,929
Balance of PRC corporate income tax at 31 December/30 June	(4,814)	(2,555)	8,929	17,792

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Provision of PRC corporate income tax for the year/period	7,484	11,542	28,512	33,664
PRC corporate income tax paid during the year/period	(19,680)	(9,276)	(17,020)	(24,823)
	(12,196)	2,266	11,492	8,841
Balance of PRC corporate income tax at 1 January	7,371	(4,825)	(2,559)	8,933
Balance of PRC corporate income tax at 31 December/30 June	(4,825)	(2,559)	8,933	17,774

(b) Deferred tax assets recognised

The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

The Group

Deferred tax assets arising from:	Deferred revenue	Impairment for inventory and receivables	Accrued expenses and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2012	1,018	2,922	2,178	6,118
(Credited)/charged to profit or loss	(75)	(180)	69	(186)
At 31 December 2012 and 1 January 2013	943	2,742	2,247	5,932
Charged/(credited) to profit or loss	106	387	(1,322)	(829)
At 31 December 2013 and 1 January 2014	1,049	3,129	925	5,103
(Credited)/charged to profit or loss	(50)	(1,725)	2,519	744
At 31 December 2014 and 1 January 2015	999	1,404	3,444	5,847
(Credited)/charged to profit or loss	(25)	1,188	2,617	3,780
At 30 June 2015	974	2,592	6,061	9,627

The Company

Deferred tax assets arising from:	Deferred revenue	Impairment for inventory and receivables	Accrued expenses and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2012	1,018	2,920	2,176	6,114
(Credited)/charged to profit or loss	(75)	(181)	70	(186)
At 31 December 2012 and 1 January 2013	943	2,739	2,246	5,928
Charged/(credited) to profit or loss	106	384	(1,321)	(831)
At 31 December 2013 and 1 January 2014	1,049	3,123	925	5,097
(Credited)/charged to profit or loss	(50)	(1,727)	2,519	742
At 31 December 2014 and 1 January 2015	999	1,396	3,444	5,839
(Credited)/charged to profit or loss	(25)	1,188	2,617	3,780
At 30 June 2015	974	2,584	6,061	9,619

(c) Reconciliation to the consolidated statements of financial position

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets recognised in the consolidated statements of financial position	5,932	5,103	5,847	9,627

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets recognised in the statements of financial position	5,928	5,097	5,839	9,619

(d) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of Ruyuan HEC Pharma of RMB3,961,000 and RMB2,893,000 as at 31 December 2012 and 2013 respectively. The Group determined that it was not probable that future taxable income against which the losses could be utilised in the foreseeable future.

19 DISPOSAL OF A SUBSIDIARY TO IMMEDIATE HOLDING COMPANY

On 29 September 2014, 100% equity interests of Ruyuan HEC Pharma held by the Group were transferred at a consideration of RMB100,000,000 to HEC Pharm. Both of the Group and HEC Pharm are controlled by Shenzhen HEC Industrial.

Financial statement items of Ruyuan HEC Pharma were transferred to HEC Pharm by the Group based on their carrying amount as of the date of disposal and the difference of RMB52,991,000 between the consideration of RMB100,000,000 and net assets transferred of RMB47,009,000 was recorded as an adjustment to the retained earnings of the Group. The disposal of Ruyuan HEC Pharma had the following effect on the Group's assets and liabilities:

	Note	**Carrying values upon disposal** *RMB'000*
Fixed assets		
– Property, plant and equipment	*9*	299,045
– Interests in leasehold land held for own use under operating leases	*9*	27,382
		326,427
Inventories		11,105
Trade and other receivables		109,893
Cash and cash equivalents		3,186
Trade and other payables		(186,062)
Bank loans		(217,540)
Net identifiable assets		47,009
Analysis of the net cash outflow in respect of the disposal of subsidiary		
Cash consideration received *(i)*		–
Cash and cash equivalent of the subsidiary disposed		(3,186)
Net cash outflow in respect of disposal of a subsidiary		(3,186)

(i) As at 31 December 2014, the consideration receivables of RMB100,000,000 in relation to disposal of Ruyuan HEC Pharma were offset with the amounts due to HEC Pharm, which included dividends payable of the Company of RMB390,000,000 (note 20(e)).

20 CAPITAL, RESERVE AND DIVIDENDS

(a) Movements in components of equity of the Company

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of each of the reporting period are set out below:

	Note	**Share capital** *RMB'000* *Note 20(b)*	**Capital reserve** *RMB'000* *Note 20(c)(i)*	**Statutory reserve** *RMB'000* *Note 20(c)(ii)*	**Retained earnings** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2012		170,800	8,096	97,722	129,879	406,497
Total comprehensive income for the year		–	–	–	38,917	38,917
At 31 December 2012 and 1 January 2013		170,800	8,096	97,722	168,796	445,414
Total comprehensive income for the year		–	–	–	69,416	69,416
At 31 December 2013 and 1 January 2014		170,800	8,096	97,722	238,212	514,830
Total comprehensive income for the year		–	–	–	152,296	152,296
Dividends approved	*20(e)*	–	–	–	(390,000)	(390,000)
At 31 December 2014		170,800	8,096	97,722	508	277,126
Total comprehensive income for the period		–	–	–	153,184	153,184
Conversion to joint stock limited liability company	*20(b)(ii)*	129,200	(635)	(97,722)	(30,843)	–
Capital injection	*20(b)(iii)*	60,527	456,567	–	–	517,094
At 30 June 2015		360,527	464,028	–	122,849	947,404
(Unaudited)						
At 1 January 2014		170,800	8,096	97,722	238,212	514,830
Total comprehensive income for the period		–	–	–	92,591	92,591
At 30 June 2014		170,800	8,096	97,722	330,803	607,421

(b) Share capital

(i) For the purpose of this Financial Information, share capital of the Group during the years ended 31 December 2012, 2013 and 2014 represented the paid-in capital of the Company.

The Company was established as a limited liability company in the PRC on 8 August 2001. As of 31 December 2012, 2013 and 2014, the paid-in capital of the Company was RMB170,800,000.

(ii) On 11 May 2015, the Company converted into a joint stock limited liability company and 300,000,000 shares of RMB1 each were issued. The retained earnings and statutory reserve of the Company upon the conversion were transferred to share capital and capital reserve of the Company accordingly under rules and regulations in respect of conversion to a joint stock limited liability company in the PRC.

(iii) On 5 June 2015, the Company entered into a capital injection agreement with certain new investors (the "Investors"). Pursuant to the capital injection agreement, the Company issued and allotted 60,527,450 shares to the Investors, at a price of RMB8.54 per share. Proceeds of RMB60,527,450, representing the nominal value of the shares, were credited to the Company's share capital and the excess of the proceeds over the nominal value of the total number of shares issued were credited to the capital reserve account of the Company.

(c) Reserves

(i) Capital reserve

Capital reserve of the Group and the Company mainly represented premium arising from capital injection from equity owners.

(ii) Statutory reserve

According to the Company's Articles of Association, the Company is required to transfer at least 10% of its net profit as determined in accordance with the Company Law of the PRC to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to equity owner. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase capital of the subsidiary.

(d) Distributability of reserve

At 30 June 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Company Law of the PRC, was RMB122,849,000.

(e) Dividends

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the Relevant Periods is as follow:

	For the year ended 31 December			For the six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Dividends approved	–	–	390,000	–	–

Pursuant to a deed of debt assignment entered into between HEC Pharm, North & South Brothers Investment and the Company on 31 December 2014, North & South Brothers Investment assigned its rights in respect of dividends receivable from the Company of RMB97,500,000 to the HEC Pharm in consideration of a same amount. As at 31 December 2014, dividends payable to HEC Pharm of RMB390,000,000 of the Company, which included the payables amount assigned by North & South Brothers Investment, were offset with the amounts due from HEC Pharm.

The directors consider that the dividend payments during the Relevant Periods are not indicative of the future dividend policy of the Company.

(f) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings), less cash and cash equivalents. Adjusted capital comprises all components of equity.

During the Relevant Periods, the Group's strategy was to maintain the capital in order to cover any debt position.

The adjusted debt-to-equity ratios at 31 December 2012, 2013 and 2014 and 30 June 2015 are as follows:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans and borrowings – current	327,980	462,900	270,000	297,500
Loans and borrowings – non-current	339,980	338,270	145,000	122,500
Total debt	667,960	801,170	415,000	420,000
Less: Cash and cash equivalents	(31,236)	(32,367)	(86,554)	(689,648)
Adjusted net debt	636,724	768,803	328,446	(269,648)
Total equity	421,121	478,921	277,255	947,597
Adjusted net debt-to-equity ratio	1.51	1.61	1.18	N/A

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Credit limit is established for each distributor which represents the maximum open amount or credit term without requiring approval from the Board of Directors. The Group chases the customers to settle the due balances and monitors the settlement progress on an ongoing basis. During the Relevant Periods, the Group usually granted credit term to distributors which was generally due within 30-90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

The Group has a concentration of credit risk of the total trade receivables due from the Group's largest debtor and the five largest debtors as follows:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
Due from				
– largest trade debtor	9%	13%	15%	27%
– five largest trade debtors	23%	18%	29%	54%

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 12.

The maximum exposure of credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position. Except for the financial guarantees given by the Group as set out in note 23, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 23.

(b) Liquidity risk

Liquidity risk is the risk that an enterprise may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Company and its individual subsidiaries are responsible for their own cash management, including short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each report periods of the Group's financial liabilities (excluding advances from customers and provision for sales return), which are based on contractual undiscounted cash flows (including interest payments computed at contracted rates) and the earliest date the Group can be required to repay:

The Group

	31 December 2012				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	361,224	365,001	41,720	767,945	667,960
Trade and other payables	308,319	–	–	308,319	308,319
Total	669,543	365,001	41,720	1,076,264	976,279

	31 December 2013				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	506,306	327,840	86,886	921,032	801,170
Trade and other payables	287,981	–	–	287,981	287,981
Total	794,287	327,840	86,886	1,209,013	1,089,151

	31 December 2014				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	292,268	162,096	–	454,364	415,000
Trade and other payables	162,682	–	–	162,682	162,682
Total	454,950	162,096	–	617,046	577,682

	30 June 2015				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	314,840	130,928	–	445,768	420,000
Trade and other payables	158,314	–	–	158,314	158,314
Total	473,154	130,928	–	604,082	578,314

The Company

	31 December 2012				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	354,019	269,421	–	623,440	557,960
Trade and other payables	116,532	–	–	116,532	116,532
Total	470,551	269,421	–	739,972	674,492

	31 December 2013				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	492,992	163,319	–	656,311	597,900
Trade and other payables	111,601	–	–	111,601	111,601
Total	604,593	163,319	–	767,912	709,501

	31 December 2014				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	292,268	162,096	–	454,364	415,000
Trade and other payables	162,367	–	–	162,367	162,367
Total	454,635	162,096	–	616,731	577,367

	30 June 2015				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	314,840	130,928	–	445,768	420,000
Trade and other payables	158,028	–	–	158,028	158,028
Total	472,868	130,928	–	603,796	578,028

(c) Interest rate risk

The Group's interest rate risk arises primarily from loans and borrowings. Borrowings that are at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profiles as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

The Group

	As at 31 December						As at 30 June	
	2012		2013		2014		2015	
	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount	Effective interest rate	Amount
		RMB'000		*RMB'000*		*RMB'000*		*RMB'000*
Fixed rate instruments:								
Bank loans	6.33%	308,000	6.00%	258,000	6.39%	250,000	6.35%	300,000
Floating rate instruments:								
Bank loans	6.59%	359,960	6.47%	543,170	6.15%	165,000	5.40%	120,000
Total instruments		667,960		801,170		415,000		420,000

(ii) Sensitivity analysis

At 31 December 2012, 2013 and 2014 and 30 June 2015, it is estimated that a general increase/decrease of 25 basis points in borrowing interest rates, with all other variables held constant, would have decrease/increase the Group's profit after tax and retained earnings by approximately RMB765,000, RMB1,154,000, RMB351,000 and RMB255,000 respectively. Other components of equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the impact on the Group's profit for the year and retained earnings that would arise assuming that there is an annualised impact on interest expense by a change in interest rates. The analysis has been performed on the same basis throughout the Relevant Periods.

22 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2012, 2013 and 2014 and 30 June 2015 not provided for in the financial statements were as follows:

The Group

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted for	88,375	35,665	16,403	13,769

The Company

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted for	29,450	9,343	16,403	13,769

23 CONTINGENT LIABILITIES

At 30 June 2015, the Group has issued cross guarantees to two banks in respect of a joint banking facilities granted to the Company, HEC Pharm, Ruyuan HEC Pharma and Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業有限公司) ("Sunshine Lake Pharma").

At 30 June 2015, the directors do not consider it probable that a claim will be made against the Group under this guarantee. The maximum liability of the Group as at 30 June 2015 under this guarantee is represented by the facilities drawn down by HEC Pharm, Ruyuan HEC Pharma and Sunshine Lake Pharma amounting to RMB1,878,548,000. Due to the related party nature of this instrument, the directors consider it is not meaningful and practicable to estimate the fair values of the financial guarantees and therefore they have not been recognised in this Financial Information.

24 MATERIAL RELATED PARTY TRANSACTIONS

During the Relevant Periods, the directors are of the view that related parties of the Group include the following:

Name of related party	Relationship with the Group
Shenzhen HEC Industrial	the ultimate controlling shareholder
HEC Pharm	the controlling shareholder
Sunshine Lake Pharma	effectively owned by the controlling shareholder
Dongguan HEC Medicine Development and Research Co., Ltd. (東莞東陽光藥物研發有限公司) ("Dongguan HEC Research")	effectively owned by the ultimate controlling shareholder
Shaoguan HEC Packaging and Printing Co., Ltd. (韶關東陽光包裝印刷有限公司) ("Shaoguan HEC Printing")	associate of the ultimate controlling shareholder
Yichang HEC Power Plant Co., Ltd. (宜昌東陽光火力發電有限公司) ("HEC Power Plant")	effectively owned by the ultimate controlling shareholder
Ruyuan Nanling Haoshanhaoshui Cosmetics Co., Ltd. (乳源南嶺好山好水化妝品有限公司) ("Ruyuan Cosmetics")	effectively owned by a major shareholder
Ruyuan HEC Medical Instrument Co., Ltd. (乳源東陽光醫療器械有限公司) ("HEC Medical Instruments")	effectively owned by the ultimate controlling shareholder
Ruyuan Longwan Mechanic Co., Ltd. (乳源龍灣機械有限公司) ("Ruyuan Longwan Mechanic")	effectively owned by the ultimate controlling shareholder

Name of related party	Relationship with the Group
Yidu Hongshuo Trading Co., Ltd. (宜都市宏碩貿易有限公司) ("Yidu Hongshuo")	effectively owned by the controlling shareholder
Yidu Changjiang Mechanism Equipment Co., Ltd. (宜都長江機械設備有限公司) ("Changjiang Mechanism")	effectively owned by the ultimate controlling shareholder
Yichang Shancheng Cordyceps Sinensis Co., Ltd. (宜昌山城水都冬蟲夏草有限公司) ("Yichang Shancheng")	effectively owned by the controlling shareholder
Ruanyuan HEC Precision Foil Co., Ltd. (乳源東陽光精箔有限公司) ("HEC Precision Foil")	associate of the ultimate controlling shareholder
Ruanyuan Yao Autonomous Region HEC Formed Foil Co., Ltd. (乳源瑤族自治縣東陽光化成箔有限公司) ("HEC Formed Foil")	associate of the ultimate controlling shareholder
HEC Medicine Retail Chain (Dongguan) Co., Ltd. (東陽光藥零售連鎖(東莞)有限公司) ("HEC Medicine Retail")	effectively owned by the ultimate controlling shareholder
Nanling Forest Resort & Thermal Hotel (乳源避暑林莊溫泉大飯店有限公司) ("Nanling Forest Resort")	effectively owned by the ultimate controlling shareholder
Yidu Shanchengshuidu Project Construction Co., Ltd. (宜都山城水都建築工程有限公司) ("Yidu Construction")	effectively owned by the ultimate controlling shareholder

* The English translation of the above companies' names is for reference only. The official names of these companies are in Chinese.

(a) Transactions with related parties

During the Relevant Periods, the Group entered into the following material related party transactions:

Recurring transactions

		For the year ended 31 December			For the six months ended 30 June	
		2012	2013	2014	2014	2015
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(i)	Purchase of goods from:					
	HEC Pharm	33,415	28,527	21,573	9,286	9,894
	Sunshine Lake Pharma	2,037	–	–	–	–
	Shaoguan HEC Printing	8,652	8,578	8,020	4,068	4,199
	HEC Power Plant	3,250	3,576	3,528	1,561	1,724
	HEC Formed Foil	797	718	660	463	–
		48,151	41,399	33,781	15,378	15,817

Non-recurring transactions

		For the year ended 31 December			For the six months ended 30 June	
		2012	2013	2014	2014	2015
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(i)	Sales of good to:					
	Dongguan HEC Research	–	1,389	–	–	–
	Sunshine Lake Pharma	491	864	2,842	–	340
	HEC Medical Instruments	–	559	133	103	–
		491	2,812	2,975	103	340
(ii)	Sales of fixed assets to:					
	Ruyuan Cosmetics	–	5,400	15	–	–
	HEC Medical Instruments	555	3,074	1,747	–	–
	Dongguan HEC Research	–	–	–	–	5,189
	Yichang Shancheng	–	961	–	–	–
		555	9,435	1,762	–	5,189
(iii)	Purchase of fixed assets from:					
	Ruyuan Longwan Mechanic	15,470	–	–	–	–
	HEC Precision Foil	642	–	–	–	–
	Changjiang Mechanism	524	95	1,245	887	–
		16,636	95	1,245	887	–
(iv)	Interest (expenses)/income:					
	HEC Pharm	(2,881)	7,981	11,925	3,763	737
	Sunshine Lake Pharma	2,363	1,633	68	–	–
	Dongguan HEC Research	4,902	(362)	(356)	(110)	(10)
	Yidu Hongshuo	–	487	(1,000)	–	(466)
	Shenzhen HEC Industrial	–	–	(851)	(94)	(23)
		4,384	9,739	9,786	3,559	238
(v)	Processing service provided to HEC Pharm	–	1,250	–	–	–
(vi)	Processing service received from Sunshine Lake Pharma	–	–	780	–	2,194
(vii)	Research and development services received from:					
	Sunshine Lake Pharma	7,759	5,218	5,114	3,160	298
	Dongguan HEC Research	3,731	2,111	1,342	778	128
		11,490	7,329	6,456	3,938	426
(viii)	Research and development services provided to:					
	Dongguan HEC Research	19,778	38,555	28,707	16,494	1,129
(ix)	Other services received from:					
	Nanling Forest Resort	–	64	1,192	81	–
	Yidu Construction	–	–	–	–	1,706
		–	64	1,192	81	1,706

(b) Balances with related parties

(i) Amounts due from related parties

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivable from:				
Shaoguan HEC Printing	–	–	6,000	1,087
Others	–	333	–	104
	–	333	6,000	1,191
Other receivable from:				
HEC Pharm	290,243	370,313	868	–
Dongguan HEC Research	29,765	50,643	15,086	23,149
Yichang Shancheng	409	1,534	1,124	899
HEC Medicine Retail	3,070	4,258	3,611	3,801
Others	–	557	–	–
	323,487	427,305	20,689	27,849

(ii) Amounts due to related parties

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables to:				
Ruyuan Cosmetics	–	2,050	–	–
Sunshine Lake Pharma	–	–	–	2,567
HEC Power Plant	299	–	663	–
Others	130	1	–	2
	429	2,051	663	2,569
Other payables to:				
HEC Pharm	177,795	158,064	49,928	5,844
Yidu Hongshuo	–	48,685	–	–
Ruyuan Longwan Mechanic	9,471	–	–	–
Shenzhen HEC Industrial	–	–	852	875
Sunshine Lake Pharma	–	–	–	18,200
Others	–	125	–	17
Total	187,266	206,874	50,780	24,936

The outstanding balances with related parties are interest bearing at 6 to 12 months bank lending rate published by the Peoples' Bank of China, unsecured and have no fixed repayment terms.

(c) Financial guarantees

At 31 December 2012, 2013 and 2014 and 30 June 2015, cross guarantees were issued to the Group by certain related parties in connection with banking facilities amounted to RMB640,000,000, RMB640,000,000, RMB400,000,000, and RMB400,000,000 of the Group.

(d) Key management personnel compensation

Key management personnel compensation comprised:

	Year ended 31 December			Six months ended 30 June	
	2012	**2013**	**2014**	**2014**	**2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* **(unaudited)**	*RMB'000*
Salaries and other benefits	628	751	949	343	513
Contribution to defined retirement plans	33	44	63	25	41
	661	795	1,012	368	554

25 ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Impairment of trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value. The Group reassesses these estimates at the end of each reporting period.

(c) Depreciation

Fixed assets are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded in each reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

(d) Recognition of deferred tax assets

Deferred tax assets in respect of unused tax losses and deductible temporary differences are recognized and measured based on the expected manner of realisation or settlement of the carrying amount of the relevant assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognized and hence the net profit in future years.

26 LIST OF AUDITORS OF THE SUBSIDIARIES

The following list contains details of the companies included in the Financial Information that are subject to audit during the Relevant Periods and the name of the respective auditor.

Name of companies	Financial period	Statutory auditors
The Company	Years ended 31 December 2012, 2013 and 2014	Pan-China Certified Public Accountants* (天健會計師事務所)
Ruyuan HEC Pharma	Years ended 31 December 2012 and 2013	Pan-China Certified Public Accountants* (天健會計師事務所)
Yichang HEC Pharmaceutical	Years ended 31 December 2012, 2013 and 2014	Pan-China Certified Public Accountants* (天健會計師事務所)

* The English translation is for reference only. The official name of the auditor is in Chinese.

27 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this Financial Information, the IASB has issued a number of amendments and new standards which are not yet effective for the Relevant Periods and which have not been adopted in this Financial Information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to IAS 16 and IAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
IFRS 15, *Revenue from contracts with customers*	1 January 2018
IFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far the Directors consider that the adoption of them is unlikely to have a significant impact on the Financial Information of the Group.

C SUBSEQUENT EVENTS

On 22 July 2015, the Company entered into an agreement with Sunshine Lake Pharma, pursuant to which the Company have acquired the right to use all the relevant technologies and patents relating to yimitasvir phosphate and follow-up direct anti-viral compounds worldwide and, upon obtaining the relevant government approvals and permits, the right to manufacture and sell worldwide, for a consideration of RMB700 million.

D SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30 June 2015. No dividend or distribution has been declared or made by any companies comprising the Group in respect of any period subsequent to 30 June 2015.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report, as set out in Appendix I to this prospectus, from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and our historical financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Global Offering as if the Global Offering had been completed on 30 June 2015. It is based on the notes set forth below. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 30 June 2015 or any future date.

	Consolidated net tangible assets of our Group attributable to equity shareholders of our Company as of 30 June 2015	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company**	**Unaudited pro forma adjusted consolidated net tangible assets per Share attributable to equity shareholders of our Company**	
	RMB'000[(1)]	*RMB'000[(2)(4)]*	*RMB'000*	*RMB[(3)]*	*HK$[(4)]*
Base on an Offer Price of HK$13.70 per share	947,597	948,326	1,895,923	4.21	5.10
Base on an Offer Price of HK$18.50 per share	947,597	1,292,984	2,240,581	4.97	6.02

Notes:

(1) The consolidated net tangible assets of the Group attributable to equity shareholders of our Company as at 30 June 2015 is calculated based on the consolidated net assets of the Group of RMB947,597 as at 30 June 2015, as extracted from the financial information included in the Accountants' Report set out in Appendix I to the prospectus.

(2) Estimated net proceeds from the Global Offering are based on the issuance of 90,132,000 shares and the indicative Offer Prices of HK$13.70 and HK$18.50 per share, respectively, being the lower end price and higher end price of the Stated Offer Price range, after deduction of the underwriting fees and other related expenses related to Global Offering (excluding approximately RMB5,134,000 listing expenses which has been charged to profit or loss up to 30 June 2015) and do not take into account of any Shares that may be issued pursuant to the Over-Allotment Option.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments for the estimated net proceeds from the Global Offering payable to our Company as described in note (2) and on the basis that a total of 450,659,450 shares were in issue assuming that the Global Offering was completed on 30 June 2015 and do not take into account of any Shares that may be issued pursuant to the Over-Allotment Option (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Global Offering).

(4) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company per Share are converted from or into Hong Kong dollars at and exchange rate of HK$1 to RMB0.82561. No representation is made that HK$ amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.

(5) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2015.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's unaudited pro forma financial information for the purpose of incorporation in this prospectus.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

15 December 2015

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF YICHANG HEC CHANGJIANG PHARMACEUTICAL CO., LTD.

We have completed our assurance engagement to report on the compilation of pro forma financial information of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 30 June 2015 and related notes as set out in Part A of Appendix II to the prospectus dated 15 December 2015 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at 30 June 2015 as if the Global Offering had taken place at 30 June 2015. As part of this process, information about the Group's financial position as at 30 June 2015 has been extracted by the Directors from the Group's historical financial statements included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 30 June 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group, and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

TAXATION ON HOLDERS OF SECURITY

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, as well as on the Treaty Between the U.S. and the PRC for the Avoidance of Double Taxation (《中美避免雙重徵税協定》) (the "Treaty"), all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

For purposes of this section of this prospectus, an "Eligible U.S. Holder" is any beneficial owner of H Shares that (i) is a resident of the United States for purposes of the Treaty, (ii) does not maintain a permanent establishment or fixed base in the PRC relating to the H Shares, and the beneficial owner does not or did not carry on any business through such establishment or fixed base (in the case of an individual, does not or did not perform any independent personal services) and (iii) in other respects, is eligible to enjoy benefits under the Treaty with respect to income and gains derived in connection with the H Shares.

This section of this prospectus does not address any aspects of Hong Kong or PRC taxation other than income tax, capital gains tax, stamp duty and estate duty. Prospective investors are urged to consult their respective tax advisors regarding the PRC, Hong Kong and other taxation consequences arising from the ownership and disposal of H Shares.

PRC

Dividend Tax

Individual Investors

According to the Individual Income Tax Law of China (《中華人民共和國個人所得税法》) (the "Individual Income Tax Law"), as enacted by the Standing Committee of the fifth Session of the National People's Congress on 10 September 1980 and as last amended on 30 June 2011 and become effective on 1 September 2011 and the Provisions for Implementation of Individual Income Tax Law of the PRC (《中華人民共和國個人所得税法實施條例》) (the "Implementation Rules"), as last amended by the State Council on 19 July 2011 and effective on 1 September 2011, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to an individual income tax of 20% unless specifically exempted by the taxation authority of the State Council or reduced by an applicable tax treaty.

According to the Ministry of Finance and the SAT Notice on Certain Policy Issues of Individual Income Tax (《財政部、國家税務總局關於個人所得税若干政策問題的通知》, Cai Shui Zi [1994] No. 20), the dividends, bonuses that foreign individuals obtain from foreign-invested enterprises will be temporarily exempted from individual income tax. In accordance with the Several Opinions of the NDRC and other Departments on Deepening the Reform of Income Distribution System Approved and Dispatched by the State Council (GUO FA [2013] No. 6) (《國務院批轉發展改革委等部門關於深化收入分配制度改革的若干意見》) and the Notice Concerning Individual Income Tax on the Dividends, Bonuses that Foreign Individuals Obtain from Foreign-invested Enterprises Issued by the Ministry of Finance of Hubei Province (《湖北省地方税務局關於對外籍個人從外商投資企業取得股息紅利所得徵收個人所得税問題的公告》), tax preference of income tax levied on the foreign individuals with respect to the dividends, bonus and others sourced from the foreign invested enterprises is abolished, based on the relevant provisions of taxation treaty signed between their country (region) and PRC, and according to the terms of "Dividends" in the taxation treaty, foreign individuals can get tax preference after relevant procedures. We understand that during the practical operation, according to the Circular on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] NO.045 dated 4 August 2011 issued by SAT (Guo Shui Han [2011] NO.348) (《關於國税發[1993]045號文件廢止後有關個人所得税徵管問題的通知》(國税函[2011]348號)), dividends paid by PRC companies to a non-PRC resident individual holder of H shares are subject to PRC individual income tax at the rates determined in accordance with applicable tax treaties or arrangements between the PRC and the specific jurisdiction in which the shareholder resides. Such tax rates range from 5% to 20%. Such arrangements have also been addressed in a letter dated 28 June 2011 issued by the SAT to the Hong Kong Inland Revenue Department. The letter explicitly provides that Hong Kong resident individuals shall be subject to a tax rate of 10% on the dividend income they receive from H share issuers. In view of this, we will withhold 10% of any dividend to be distributed to non-PRC resident individual holders of H Shares as individual income tax unless otherwise specified by the relevant requirements and procedures of PRC tax authorities.

Enterprise

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》) (the "EIT Law") and the Implementation Rules of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》) (the "Implementation Rules of EIT Law") which both became effective on 1 January 2008, the non-resident enterprises shall be subject to 10% enterprise income tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no any substantive connection between the dividends and bonuses received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable avoidance of double taxation treaty.

According to the Circular concerning Questions on Withholding and Payment of Enterprise Income Tax when PRC Resident Enterprises Distribute Dividends to Non-resident Enterprise Shareholders of Foreign H Shares (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扣代繳企業所得稅有關問題的通知》) issued by the State Administration of Taxation, which became effective on 6 November 2008, PRC resident enterprises should withhold enterprise income tax at a unified rate of 10% when they distribute dividends to non-resident enterprise shareholders of foreign H Shares from the year of 2008. Such withholding tax may be reduced pursuant to an applicable avoidance of double taxation treaty.

Tax Treaties

Investors who do not reside in the PRC and reside in countries that have entered into treaties for avoidance of double taxation with the PRC are entitled to a reduction of the withholding tax imposed on dividends payable by PRC companies. The PRC currently has signed double-taxation treaties with many nations in the world, which include but not limited to: Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore and the United States.

Capital Gains Tax

Individual Investors

In accordance with the Implementation Rules of Individual Income Tax Law, individuals are subject to individual income tax at the rate of 20% on gains realized on the sale of equity interests in PRC resident enterprises. The Implementation Rules of Individual Income Tax Law also provide that the MOF shall draft measures for collection of individual income tax from income on the transfer of shares, and such measures are subject to the approval of the State Council for implementation. However, as of the Latest Practicable Date, no such measures have been drafted and enacted. In the event that such oversea individuals constitute PRC fiscal residents defined by relevant regulations, or that the shares to be held by such oversea individuals in a company will exceed 25% of its total share capital, since the Circular Declaring the Continuation of Temporary Exemption of Individual Income Tax on Income of Individuals from Transfer of Shares (《關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知》) issued by MOF and State Administration of Taxation on 30 March 1998 ("Cai Shui Zi [1998] No. 61") was not applied to H shares, such oversea investors may have to pay individual income tax according to the relevant regulations of Individual Income Tax Law of the PRC.

Enterprise

According to the EIT Law and the Implementation Rules of EIT Law, the non-resident enterprises shall be subject to 10% enterprise tax for the income originated from the PRC provided that the non-resident enterprises do not establish offices or premises in the PRC, or where there are offices and premises established, there is no any substantive relationship with the dividends and bonuses received and the offices or premises established by the non-resident enterprises. Such withholding tax may be reduced pursuant to an applicable double taxation treaty.

Additional Chinese Tax Considerations

PRC Stamp Duty

PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the provisional regulations should not apply to the acquisition and disposal by non-PRC investors of H Shares outside of the PRC by virtue of the Provisional Regulations of Stamp Duty of the PRC (《中華人民共和國印花稅暫行條例》), and the Detailed Rules of Implementation of the Provisional Regulations of the PRC on Stamp Tax (《中華人民共和國印花稅暫行條例實施細則》) which became effective on 1 October 1988. PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate Tax

Under China's current legal environment, no liability for estate tax under PRC law will arise from a non-PRC national's holding of H Shares.

MAJOR TAXATION OF THE COMPANY IN THE PRC

Enterprise Income Tax

In accordance with the EIT Law, the enterprise income tax rate for enterprises and other institutions which get revenues in the PRC is 25%.

Business Tax

According to the PRC Provisional Regulations on Business Tax (《中華人民共和國營業稅暫行條例》) amended on 10 November 2008 and implemented on 1 January 2009 and the Detailed Implementation Rules on the PRC Provisional Regulations on Business Tax (《中華人民共和國營業稅暫行條例實施細則》) amended on 28 October 2011 and implemented on 1 January 2009, enterprises and individuals that provide labor services, transfer intangible assets or sell real estate as specified by such regulations are subject to a 5% business tax unless they are otherwise exempt. For entities or individuals without a domestic business establishment who provide labour services, transfer intangible assets or sell real estate in the PRC, business taxes must be withheld and paid by their domestic agents on their behalf. For entities or individuals who have not appointed any domestic agents, business taxes must be withheld and paid by the transferees or buyers on their behalf.

Value Added Tax ("VAT")

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值税暫行條例》), which was amended on 10 November 2008 and implement on 1 January 2009, and the Detailed Implementation Rules of the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值税暫行條例實施細則》) which was amended on 28 October 2011 and implement on 1 January 2009, all entities or individuals engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC must pay value-added tax. Unless provided otherwise, a tax rate of 17% shall be levied on most of general taxpayers selling or importing various goods. The rate applicable to the export of goods by taxpayers is nil, unless otherwise stipulated.

Pursuant to the Pilot Scheme for the Conversion of Business Tax to VAT (《營業税改徵增值税試點方案》) (Cai Shui [2011] No. 110) promulgated by the MOF and the SAT on 16 November 2011, since 1 January 2012 the State started to introduce taxation reform in certain service industries (namely transportation and certain modern service industries) which are subject to business tax in a gradual manner, whereby the collection of VAT in lieu of business tax items was implemented on a trial basis in certain regions including Shanghai and Beijing and other regions. The MOF and the SAT further notified that the aforesaid pilot scheme for the conversion of business tax to VAT will be implemented nationwide beginning 1 August 2013. As of the Latest Practicable Date, the financial and insurance industry, real estate industry, social service industry and other industries are included into the pilot industries for the conversion of business tax to VAT.

Stamp Duty

According to the Provisional Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花税暫行條例》) and the Detailed Rules for Implementation of the Provisional Regulations of the People's Republic of China on Stamp Duty (《中華人民共和國印花税暫行條例施行細則》), all entities and individuals executing or receiving taxable documents within the PRC, which executed or received within the PRC that are legally binding in the PRC and are protected under PRC law, must pay stamp duty. The list of taxable documents includes purchase and sale contracts, processing contracts, construction project contracts, property lease contracts, cargo freight contracts, warehousing and storage contracts, loan contracts, property insurance contracts, technical contracts, other documents in the nature of contracts, title transfer deeds, business account books, certificates of rights, licenses and other documents confirmed to be taxable by the Ministry of Finance.

MAJOR TAXATION OF THE COMPANY IN HONG KONG

Taxation on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by our Company.

Taxation on Capital Gains and Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as H Shares. However, trading gains from the sale of H Shares by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax. Currently, a profits tax is imposed on corporations at the rate of 16.5% and on individuals at a maximum rate of 15.0%. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers can prove that the investment securities are held for long-term investment. Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of H Shares. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the market value of, the H Shares transferred on each of the seller and purchaser. In other words, a total of 0.2% of stamp duty is payable on a typical sale and purchase transaction of H Shares. In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required). Where a sale or purchase of H Shares is effected by a person who is not a resident of Hong Kong and any stamp duty payable on the instrument of transfer is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon, and the transferee shall be liable to pay such duty.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application of a grant of representation in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

FOREIGN EXCHANGE CONTROL

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible at this time. SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On 29 January 1996, the State Council promulgated new Regulation of Foreign Exchange (《中華人民共和國外匯管理條例》) (the "Foreign Exchange Regulations"). The Foreign Exchange Regulations was last amended and took effect on 5 August 2008. The Foreign Exchange Regulations classifies all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to approval of SAFE while capital account items still are.

On 20 June 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》). the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange took effect on 1 July 1996, pursuant to which, the PRC has abolished the restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On 25 October 1998, the PBOC and SAFE promulgated the Notice Concerning Closure of the Foreign Exchange Swap Business Activities (《關於停辦外匯調劑業務的通知》) pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On 21 July 2005, the PBOC announced that from now on, the PRC would implement a managed floating exchange rate system based on market supply and demand and with reference to a basket of currencies. Therefore, the Renminbi was no longer only pegged to the U.S. dollar. The PBOC would announce the closing price of a foreign currency such as the U.S. dollar against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day.This closing price will be used as the middle price for quoting the Renminbi exchange rate on the following working day.

Since 4 January 2006, the PBOC improved the method of generating the middle price for quoting the Renminbi exchange rate by introducing an enquiry system while keeping the match-making system in the inter-bank spot foreign exchange market. Liquidity was provided in the foreign exchange market by introducing the market-making system in the inter-bank foreign exchange market.

The foreign exchange income under the current items may be reserved or sold to financial institutions operating foreign exchange sale of settlement business. Before reserving the foreign exchange income under the capital items or selling it to any financial institution operating foreign exchange sale of settlement business, approval of the competent foreign exchange administrative authorities shall be obtained, unless it is otherwise provided by the State.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. Foreign-invested enterprises, which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises, which in accordance with regulations are required to pay dividends to shareholders in foreign currency, may, on the strength of general meeting resolutions of such PRC enterprises or board resolutions on the distribution of profits, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, such as direct investment and capital contribution, is still subject to restriction and prior approval from SAFE and the relevant branch must be sought.

Dividends to holders of H Shares are fixed in Renminbi but must be paid in Hong Kong dollars. We prepare our consolidated financial statements in Renminbi.

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, still requires the approval of SAFE and other relevant authorities.

According to the Notice on Relevant Issues of Foreign Exchange Management of Overseas Listing (《關於境外上市外匯管理有關問題的通知》, "SAFE Circular 5"), which issued by SAFE on 31 December 2014 and came into effect on the same day. A domestic issuer shall, within 15 working days after its overseas IPO, register with SAFE's local branch at the place of its incorporation. A domestic company may repatriate the proceeds from offshore listing to its domestic account or retain such proceeds at its overseas account. The use of such proceeds shall be consistent with the content of the prospectus or other public disclosure documents such as documents for issuance of corporate bonds, circulars to shareholders and resolutions of board of directors and shareholder's meetings.

According to the Decisions on Matters including Cancelling and Adjusting a Batch of Administration Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) issued by the State Council on 24 November 2014 with immediate effect, SAFE and its branches lifted the approval requirement for the remittance and settlement of proceeds raised from overseas listing of foreign shares of domestic companies.

This Appendix sets forth summaries of certain aspects of PRC law and regulations which are relevant to the Company's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III – Taxation and Foreign Exchange" to this prospectus. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

PRC LEGAL SYSTEM

The PRC legal system is composed of the constitution, laws, administrative regulations, local regulations, rules and regulations of departments of the State Council, rules and regulations of local governments, autonomy regulations and separate rules of autonomous regions and international treaties of which the PRC government is a signatory. Court judgments do not constitute legally binding precedents, although they may be used for the purpose of judicial reference and guidance. The PRC Constitution (《中華人民共和國憲法》), enacted by the National Peoples' Congress of the PRC (the "NPC"), is basis of the PRC legal system and has supreme legal authority.

The NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend the basic laws governing criminal and civil matters, State institutions and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required by to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during its adjournment, provided that such supplements and amendments shall not be in conflict with the principles of such laws.

The State Council shall formulate administrative regulations according to the constitution and laws.

People's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and requirements of the local administrations, provided that such local regulations shall not be in conflict with the constitution, laws and administrative regulations. People's congresses of large cities and their respective standing committees may enact local regulations based on the specific circumstances and requirements of the local administrations, which shall come into effect upon approval from the respective standing committees of the people's congresses of the provinces and autonomous regions, provided that such local regulations shall not be in conflict with the constitution, laws and administrative regulations.

People's congresses of autonomous regions may enact autonomy regulations and separate rules in the light of the political, economic and cultural characteristics of the local nationalities, which shall come into effect upon approval from the Standing Committee of the NPC. Adaptations of provisions of laws and administrative regulations may be introduced to the

autonomy regulations and separate rules so long as they do not contravene the basic principles of the laws or administrative regulations, provided that no adaptations shall be made to provisions in the constitutions and national region autonomy law and specific provisions on national autonomous areas contained in other relevant laws and administrative regulations.

The ministries, commissions, People's Bank of China, Audit Office and institutions with administrative functions directly under the State Council may formulate rules and regulations within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council. Provisions of departmental rules and regulations shall be formulated for the purpose of the enforcement of the laws and administrative regulations, decisions and rulings of the State Council. The people's governments of provinces, autonomous regions, municipalities and large cities may formulate rules and regulations based on the laws, administrative regulations and relevant local regulations.

According to the PRC Constitution, the authority of the interpretation of laws shall be vested to the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, interpretation on the application of laws and decrees in court trails and the procuratorial work of the procuratorates shall be given by the Supreme People's Court and the Supreme People's Procuratorate, respectively. Interpretation of the laws and decrees unrelated to trials and procuratorial work shall be given by the State Council and the competent ministries and commissions. In the case that clarification or additional provisions shall be made for the local regulations, the standing committees of the people's congresses of provinces, autonomous regions and municipalities which enacted such regulations shall give the interpretation or formulate the additional provisions. Interpretation on the application of local regulations shall be given by the competent departments under the people's government of the respective provinces, autonomous regions and municipalities.

PRC JUDICIAL SYSTEM

Under the PRC Constitution (《中華人民共和國憲法》) and the Law of the PRC of Organization of the People's Courts (《中華人民共和國人民法院組織法》) which was enacted on 1 July 1979 and last amended on 31 October 2006 and took effect on 1 January 2007, the judicial system in PRC is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may be organized into civil, criminal and administrative divisions. The intermediate people's courts may be organized into divisions similar to those of the basic people's courts, and may be further organized into other special divisions, such as the intellectual property division. The people's courts at lower levels are subject to supervision of the people's courts at higher levels. The Supreme People's Court is the highest judicial organ of the PRC and it has the power to supervise the administration of justice by the local people's courts at all levels and all special people's courts. The people's procuratorates also have the right to exercise legal supervision over the trial activities of people's courts.

The people's courts adopt a "second instance as final" appellate system in the trail of the cases. A party to the case concerned may appeal against the judgment and ruling of the first instance by the local people's courts to the people's courts at the next higher level in accordance with the legal procedures. The people's procuratorate may appeal to the people's court at the next higher level in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned or any appeal by the people's procuratorate within the stipulated period, the judgment and ruling of the first instance by the local people's courts shall be final and legally binding. Judgments and rulings of the second instance of the intermediate people's courts, the higher people's courts and Supreme People's Court and the judgments and rulings of the first instance of the Supreme People's Court shall be the final judgments and rulings. The death penalty shall be reported to the Supreme People's Court for approval unless it is otherwise adjudged by the Supreme People's Court.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (the "PRC Civil Procedure Law"), which was adopted on 9 April 1991 and last amended on 31 August 2012 and became effective on 1 January 2013, sets forth the criteria for instituting a civil case, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the PRC Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by an express agreement, select a competent court where civil actions may be brought, provided that the competent court has jurisdiction over either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract, the object of the action or other locations which have substantial connections with the dispute. However, such selection cannot violate the stipulations of hierarchical jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may impose the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award granted by an arbitration panel in the PRC, the other party may apply to the people's court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement and the time limit is two year. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

A party seeking to enforce a judgment or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. In the case of an application or request for recognition and enforcement of a legally effective judgment or order of a foreign court, the people's court shall, after having examined it in accordance with the international treaties entered into or acceded to by the PRC or with the

principle of reciprocity and having arrived at the conclusion that it does not contravene the primary principles of the laws of the PRC nor violates its sovereignty, security or social and public interests, recognize the validity of the judgment or order, and, if required, issue a writ of enforcement and enforce it in accordance with the relevant regulations. If the application or request contravenes the primary principles of the laws of the PRC or violates its sovereignty, security or social and public interests, the people's court shall not recognize and enforce it.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

The PRC Company Law (《公司法》) which was promulgated on 29 December 1993 by the Standing Committee of the NPC, last amended on 28 December 2013 and came into effect on 1 March 2014 regulates the organization and operation of companies and protects the legitimate rights and interests of companies, shareholders and creditors. The latest amendment to the PRC Company Law has cancelled the restriction on the minimum registered capital and replaced the registered paid-up share capital system by the registered subscribed capital system.

The Special Regulations of the State Council on Share Offering and Listing Overseas by Joint-Stock Limited Liability Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) ("Special Regulations") were promulgated by the Standing Committee Meeting of the State Council, and took effect on 4 August 1994. The Special Regulations are formulated according to the PRC Company Law (1993) in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions of Articles of Association of Companies Listing Overseas (《到境外上市公司章程必備條款》) ("Mandatory Provisions") were issued jointly by the former Securities Commission of the State Council and the former State Economic Restructuring Commission on 27 August 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association (which are summarized in the appendix headed "Appendix V – Summary of the Articles of Association" to this prospectus).

Copies of the Chinese text of the PRC Company Law, Special Regulations and the Mandatory Provisions together with copies of their unofficial English translations thereof are available for inspection as mentioned in the appendix headed "Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus.

General

A "joint stock limited liability company" (hereinafter referred to as "company") is a corporate legal person incorporated under the PRC Company Law, whose registered capital is divided into shares of equal nominal value. The liability of its shareholders is limited to the extent of the shares held by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A state-owned enterprise that is restructured into a company must comply with the conditions and requirements specified by law and administrative regulation, for the modification of its operation mechanisms, the systematic handling and evaluation of the company's assets and liabilities and the establishment of internal management organs.

Incorporation

A company may be incorporated by promotion or subscription. A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC.

Companies incorporated by promotion are companies with the registered capital entirely subscribed for by the promoters. Where companies are incorporated by subscription, the promoters are required to subscribe for not less than 35% of the total number of shares of a company unless otherwise stipulated by laws and regulations, and the remaining shares can be offered to the public or specific persons, unless otherwise required by law.

For companies incorporated by promotion, the registered capital has to be the total capital subscribed for by all promoters as registered with the company registration authority. The company shall not raise capital from others before the promoters fully pay the capital subscribed by them; for companies established by public subscription, the registered capital is the amount of total paid-up capital as registered with the company registration authority.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall 15 days before the meeting give notice to all subscribers or make a public announcement of the date of the inaugural meeting.

The inaugural meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total issued shares of the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. The company is formally established and has the status of a legal person after the approval for registration has been given and a business license has been issued.

Share Capital

The promoters of a company can make capital contributions in cash or in kind, that can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares according to the laws.

A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as Domestic Shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the State Council. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by law or administrative regulation. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the PRC Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the benchmark date determined by the company for distribution of dividends.

Increase in Capital

Under the PRC Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting.

Save for the above-mentioned shareholder approval requirement, for a public offering of new shares, the Securities Law provides that the company shall: (i) have a sound organizational structure with satisfactory operating record; (ii) have the capability of continuing profitability and a healthy financial position; (iii) have no false statements and other material breaches in the financial and accounting documents of the last three years; (iv) fulfill other conditions required by the securities administration department of the State Council as approved by the State Council.

Public offer requires the approval of the securities administration department of the State Council.

After payment in full for the new shares issued, a company must change its registration with the company registration authority and issue a public notice accordingly.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

(i) The company shall prepare a balance sheet and an inventory of the assets;

(ii) The reduction of registered capital must be approved by shareholders in general meeting;

(iii) The company shall inform its creditors of the reduction in capital within ten days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;

(iv) The creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and

(v) The company must apply to the company registration authority for registration of the reduction in registered capital.

Repurchase of Shares

A company may not purchase its own shares other than for the purpose of:

(i) Reducing its capital by canceling its shares or merging with another company holding its shares;

(ii) Granting shares as a reward to the staff of the company; or

(iii) Purchasing the company's own shares upon request of its shareholders who vote against the resolution regarding the merger or division of the company in a general meeting. The shares of the company to be repurchased by itself as a reward to its staff shall not exceed 5% of the total number of its issued shares. Any funds for such purpose shall be paid out of after-tax profits of the company, and the shares so purchased shall be transferred to the company's staff within a year.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations. Transfer of shares by shareholders shall be conducted at a securities trading place established according to the law or by other means as stipulated by the State Council. Registered shares shall be transferred by means of endorsement by the shareholder or by other means stipulated in laws and administrative regulations. A transfer of bearer shares shall become effective immediately upon delivery of the shares by the shareholder to the transferee.

Shares held by the promoters in the company promoted may not be transferred within one year of the date of establishment of the company. Shares issued by a company prior to the public offer of its shares may not be transferred within one year of the date of listing of its shares on a stock exchange.

A director, supervisor or senior officers of a company may not transfer more than 25% of the shares in the company held by him each year during his term of office. The shares of the company held by him may not be transferred within one year of the date of listing of the company's shares, and may not be transferred within six months after he leaves office.

Shareholders

Shareholders have such rights and obligations as set forth in the articles of association of the company. The articles of association of a company are binding on each shareholder. Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

(i) To attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;

(ii) To transfer his shares in accordance with applicable laws and regulations and the articles of association of the company;

(iii) To inspect the company's articles of association, shareholders' registers, records of debentures, minutes of shareholders' general meetings, board resolutions, supervisors resolutions, financial and accounting reports and put forward proposals or raise questions about the business operations of the company;

(iv) If any directors or senior officers damages the shareholder's interests by violating law or administrative regulations or article of association, the shareholders may lodge an action in the people's court;

(v) To receive dividends and other distributions in respect of the number of shares held;

(vi) To obtain surplus assets of the company upon its termination in proportion to his or her shareholding; to claim against other shareholders who abuse their shareholders' rights for the damages; and

(vii) Any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by him/her, not to abuse shareholders' right to damage the interests of the company or other shareholders of the company; not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law and Special Regulations.

The shareholders' general meeting exercises the following principal powers:

(i) To decide on the company's operational policies and investment plans;

(ii) To elect or replace the directors, supervisors who are not representatives of the employees and decide on matters relating to the remuneration of directors and supervisors;

(iii) To consider and approve reports of the board of directors;

(iv) To consider and approve reports of the supervisory committee;

(v) To consider and approve the company's proposed annual financial budget and financial accounts;

(vi) To consider and approve the company's proposals for profit distribution and for recovery of losses;

(vii) To decide on any increase or reduction in the company's registered capital;

(viii) To decide on the issue of bonds by the company;

(ix) To decide on issues such as merger, division, dissolution, liquidation or change of the form of the company and other matters;

(x) To decide on the appointment, resignation or dismissal of the accounting firm;

(xi) To amend the articles of association of the company; and

(xii) Other powers specified in the articles of association of the company.

A shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

(i) The number of directors is less than the number provided for in the PRC Company Law or less than two-thirds of the number specified in the company's articles of association;

(ii) The losses of the company which are not made up reach one-third of the company's total paid up share capital; a request by a shareholder that holds, or by shareholders that hold in aggregate, 10% or more of the company's shares;

(iii) When deemed necessary by the board of directors;

(iv) When the supervisory committee proposes convening it; or

(v) Other matters required by the company's articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the total shares of the company for ninety days consecutively may unilaterally convene and preside over such meeting.

Notice of the Shareholders' general meeting shall be given to all shareholders 20 days before the meeting under the PRC Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold, but the company shall have no vote for any of its own shares the company holds.

Resolutions proposed at the shareholders' general meeting shall be adopted by more than half of the voting rights cast by shareholders present (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, dissolution, increase or reduction in registered capital, change in the form of the company or amendments to the articles of association which shall be adopted by shareholders with two-thirds or more of the voting rights cast by shareholders present (including those represented by proxies) at the meeting.

Shareholders may entrust a proxy to attend shareholders' general meetings on his or her behalf by a power of attorney which sets forth the scope of exercising the voting rights.

There is no specific provision in the PRC Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% or more of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of domestic invested shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members and there can be staff representatives of our Company. Under the PRC Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the PRC Company Law, the board of directors exercises the following powers:

(i) To convene the shareholders' general meeting and report on its work to the shareholders;

(ii) To implement the resolution of the shareholders' general meeting;

(iii) To decide on the company's business plans and investment plans;

(iv) To formulate the company's proposed annual financial budget and final accounts;

(v) To formulate the company's proposals for profit distribution and for recovery of losses;

(vi) To formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;

(vii) To prepare plans for the merger, division, dissolution or change of the form of the company;

(viii) To decide on the company's internal management structure;

(ix) To appoint or dismiss the company's president, and based on the president's recommendation, to appoint or dismiss vice presidents and financial officers of the company and to decide on their remuneration;

(x) To formulate the company's basic management system; and

(xi) Any other power given under the articles of association of the company.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the PRC Company Law, the following persons may not serve as a director of a company:

(i) Persons without civil capacity or with restricted civil capacity;

(ii) Persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the social economic order, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;

(iii) Persons who are former directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated due to mismanagement and who are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(iv) Persons who were legal representatives of a company or enterprise which had its business license revoked or business operation shut down due to violation of the law and who are personally liable, where less than three years have elapsed since the date of the revocation of the business license;

(v) Persons who have a relatively large amount of debt due and outstanding; or

(vi) Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed "Appendix V – Summary of the Articles of Association" to this prospectus).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, among others, the following powers:

(i) To preside over shareholders' general meetings and convene and preside over meetings of the board of directors; and

(ii) To check on the implementation of the resolutions of the board of directors.

The legal representative of a company in accordance with the Mandatory Provisions, is the chairman. The Special Regulations provide that a company's directors, supervisors, managers and other officers bear fiduciary duties and the duty to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in the appendix headed "Appendix V – Summary of the Articles of Association" to this prospectus) contain further elaborations of such duties.

Supervisors

A company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office or if the resignation of supervisor results in the number of supervisors being less than the quorum. The supervisory committee is made up of shareholders representatives and an appropriate proportion of the company's staff representatives; and the percentage of the number of the company's staff representatives shall not be less than one-third. Directors and senior management shall not act as supervisors.

Requirements in relation to the power of the supervisory committee under the PRC Company Law are as follows:

(i) To examine the company's financial affairs;

(ii) To supervise the directors and senior management in their performance of their duties and to propose the removal of any director or senior management who violates the laws, regulations, articles of association or shareholders' resolution;

(iii) To require any director or senior management whose act is detrimental to the company's interests to rectify such act;

(iv) To propose the convening of extraordinary shareholders' general meetings and, in the event that the board of directors fails to perform the duties of convening and presiding shareholders' meetings to convene and preside over shareholders' meetings;

(v) To propose any bills to shareholders' general meetings;

(vi) To commence any action against any directors or senior management; and

(vii) Other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutates mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interest of the company and not to use their positions for their own benefit.

Supervisors may be in attendance at board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee or (where there is no supervisory committee) the supervisors of a company may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accountant to assist in their work. All expenses incurred by the supervisory committee to exercise their power shall be borne by the company.

Meetings of the supervisory committee shall be convened at least every six months. Interim meetings of the supervisory committee can be convened by the supervisors. In accordance with the PRC Company Law, resolutions of the supervisory committee require the approval of more than half of all supervisors, and in pursuance of the Letter of Opinion on the Supplements and Amendments to the Articles of Association of the Companies Listed in Hong Kong (《關於到香港上市公司章程作補充修改的意見的函》) published by China Securities Regulatory Committee on 3 April 1995, resolutions of the supervisory committee require the approval of more than two third of the number of all supervisors. Each supervisor shall have one vote for resolutions to be approved by the supervisory committee. Minutes shall be prepared in respect of matters considered at the meeting of the supervisory committee and supervisors attending the meeting shall sign to endorse such minutes.

Managers and other Senior Officers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

(i) In charge of the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;

(ii) Arrange for the implementation of the company's annual business and investment plans;

(iii) Formulate plans for the establishment of the company's internal management structure;

(iv) Formulate the basic administration system of the company;

(v) Formulate the company's basic rules;

(vi) Recommend the appointment and dismissal of deputy managers and any financial officer and appoint or dismiss other senior administration officers (other than those required to be appointed or dismissed by the board of directors);

(vii) Attend board meetings as a non-voting attendant; and

(viii) Other powers conferred by the board of directors or the company's articles of association.

The Special Regulations and the Mandatory Provisions provide that the other senior management officers of a company includes the financial officer, secretary of the board of directors and other executives as specified in the article of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above also apply to managers and officers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association, a summary of which is set out in the appendix headed "Appendix V – Summary of the Articles of Association" to this prospectus.

Duties of Directors, Supervisors and Senior Officers

A director, supervisor and senior officer of a company are required under the PRC Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. They are also prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties. Directors and senior management are prohibited from:

(i) Misappropriation of company funds;

(ii) Deposit of company funds into accounts under their own name or the name of other individuals;

(iii) Loaning company funds to others or providing guarantees in favor of others supported by the company properties in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;

(iv) Entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting;

(v) Using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefit or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;

(vi) Accepting for their own benefit commissions from other parties dealing with the company;

(vii) Unauthorized divulgence of confidential information of the company; or

(viii) Other acts in violation of their duty of loyalty to the company.

A director, supervisor and senior officer of a company is also under a duty of confidentiality to the company.

A director, supervisor and senior officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor and senior officer of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the company and not to make use of their positions in the company for their own benefit.

Where the attendance of a director, supervisor, manager or other senior officer is requested by the shareholders' general meeting, such director, supervisor, manager or other senior officer shall attend the meeting as requested and answer enquiries of shareholders. Directors and senior officers shall furnish with all truthfulness facts and information to the supervisory committee without obstructing the discharge of duties by the supervisory committee.

A company shall not directly, or through its subsidiary, provide loans to any director, supervisor or senior management and shall regularly disclose to the shareholders any information regarding remunerations received by the directors, supervisors or senior management of the company.

Finance and Accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the provisions of the responsible financial department of the State Council and at the end of each financial year, prepare a financial report which shall be audited and verified as provided by law.

A company shall deposit its financial statements at the company for inspection by the shareholders at least 20 days before the convening of the annual general meeting of shareholders. A company incorporated by public subscription must publish its financial statements.

The common reserve of a company comprises the statutory reserve, the discretionary common reserve and the capital common reserve.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory reserve (except where the reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profits, subject to a resolution of the shareholders' general meeting, the company may make an allocation to a discretionary common reserve.

When the company's statutory reserve is not sufficient to make up for the company's losses of the previous years, current year profits shall be used to make up for the losses before allocations are set aside for the statutory reserve.

After the company has made up for its losses and make allocations to its statutory reserve the remaining profits could be available for distribution to shareholder in proportion to the number of shares held by the shareholders except as otherwise provided in the articles of association of such company limited by shares.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be treated as the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

(i) To make up the company's losses other than the capital common reserve;

(ii) To expand the business operations of the company; and

(iii) To increase the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the nominal value of the shares currently held by the shareholders provided that if the statutory surplus reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Appointment and Retirement of Auditors

The Special Regulations require a company to employ an independent PRC qualified accounting firm to audit the company's annual report and to review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next following annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders at shareholders' general meetings and shall be filed with the CSRC for record.

Distribution of Profits

The PRC Company Law provides that a company is restricted from distributing profits before accumulated losses have been made up and statutory common reserve have been drawn. The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendments to Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

Dissolution and Liquidation

Under the PRC Company Law, a company shall be dissolved in any of the following events:

(i) The term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;

(ii) The shareholders in general meeting have resolved to dissolve the company;

(iii) The company is dissolved by reason of its merger or demerger;

(iv) The company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or

(v) In the event that the company encounters substantial difficulties in its operation and management and its continuance shall cause a significant loss, in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be formed within 15 days after the occurrence of the cause of dissolution so as to carry out liquidation. Members of the liquidation committee shall be composed of the directors or people as determined by the shareholders' meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. The liquidation committee shall exercise the following powers during the liquidation period:

(i) To handle the company's assets and to prepare a balance sheet and an inventory of the assets;

(ii) To notify creditors or issue public notices;

(iii) To deal with and settle any outstanding business of relevant company;

(iv) To pay any tax owed and any tax incurred during the liquidation;

(v) To settle the company's financial claims and debts;

(vi) To handle the surplus assets of the company after its debts have been paid off; and

(vii) To represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, statutory compensation, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must immediately apply to the people's court for a declaration for bankruptcy according to the laws. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the people's court for confirmation. Thereafter, the report shall be submitted to the companies registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with relevant laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Loss of Share Certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issue of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates which has been incorporated in the Articles of Association, a summary of which is set out in "Appendix V – Summary of the Articles of Association."

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

As for a corporate merger, both parties to the merger shall conclude an agreement with each other and formulate balance sheets and checklists of properties. The companies involved shall, within 10 days as of making the decision of merger, notify the creditors, and shall make a public announcement in a newspaper within 30 days. The creditors may, within 30 days as of the receipt of the notice or within 45 days as of the issuance of the public announcement if it fails to receive a notice, require the company to clear off its debts or to provide corresponding guarantees. In the case of a merger, the credits and debts of the companies involved shall be succeeded by the company that survives the merger or by the newly established company.

As for the division of a company, the properties thereof shall be divided accordingly, and balance sheets and checklists of properties shall be worked out. The company shall, within 10 days as of the day when the decision of division is made, notify the creditors and make a public announcement in a newspaper within 30 days. The post-division companies shall bear joint liabilities for the debts of the former company before it is divided, unless it is otherwise prescribed by the company and the creditors before the division with regard to the clearance of debts in written agreement.

Overseas Listing

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and domestic invested shares which has been approved by the securities regulatory authority of the State Council may be implemented by the board of a company by way of separate issues, within 15 months after approval is obtained from the CSRC.

Securities Law and Regulations

The PRC has promulgated a number of regulations related to the issue and trading of the Shares and disclosure of information. CSRC is the securities supervising body in China responsible for formulating securities policies, drafting of securities regulatory provisions, securities markets, supervising market agents and participants, regulating public offers for sale of securities by PRC companies in the PRC or overseas, and regulating the trading of securities.

The PRC Securities Law took effect on 1 July 1999 and was last amended on 31 August 2014. The Law is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that a PRC company must obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Article 239 of the Securities Law provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the "Arbitration Law") was passed by the Standing Committee of the National People's Congress on 31 August 1994 and the latest version was amended on 27 August 2009 with immediate effect. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate provisional arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case, except for invalid arbitration agreement.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the Articles of Association and, in the case of the Hong Kong Listing Rules, also in contracts with each of the Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of the H Shares and us; holders of the H Shares and the Directors, Supervisors or officers; or holders of the Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under the Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, officers of us, shall be subject to the arbitration. Disputes in respect of who is the shareholder and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission ("CIETAC") in accordance with its rules or the Hong Kong International Arbitration Centre ("HKIAC") in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the HKIAC.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for Enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration tribunal if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration tribunal.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (《承認及執行外國仲裁裁決公約》) (the "New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the National People's Congress passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the National People's Congress simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

In June 1999, an arrangement was made between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitration bodies pursuant to the Arbitration Law can be enforced in Hong Kong. Hong Kong arbitral awards pursuant to the Arbitration Ordinance of Hong Kong are also enforceable in the PRC.

Establishment of Overseas Operations Rules and Regulations

According to the Provisions for Overseas Investment Management (《境外投資管理辦法》) as promulgated by MOFCOM with effect from 6 October 2014 and the Provisions on the Foreign Exchange Administration of Overseas Investment of Domestic Institutions (《境內機構境外直接投資外匯管理規定》) issued by SAFE with effect from 1 August 2009, upon obtaining approval from the MOFCOM to establish enterprises overseas, PRC enterprises shall apply for foreign exchange registration for overseas investments.

In accordance with Tentative Administrative Provisions on the Approval of Overseas Investment Projects (《境外投資項目核准和備案管理辦法》) as promulgated by NDRC and became effective on 8 May 2014, overseas investment projects by PRC enterprises conducted by way of new establishment, merger and acquisition, equity participation, capital increase and capital injection, etc., and overseas investment projects implemented by way of providing financing or guarantee via overseas enterprises or entity, are subject to obtain approval or lodge filing with NDRC in accordance with the relevant conditions of the overseas investment projects.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the Company upon its incorporation and the company will acquire an independent corporate

existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain preemptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the PRC Company Law, a joint stock limited company may be incorporated by promotion or subscription. The latest amended PRC Company Law removed the general provisions on statutory minimum registered capital, except that laws, administrative regulations and the State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital, in which case the company should follow such provisions.

Share Capital

Under the new Companies Ordinance, the concept of the nominal value (also known as par value) of shares of a Hong Kong company has been abolished, and the companies have increased flexibility to alter its share capital by (i) increasing its share capital; (ii) capitalizing its profits; (iii) allotting and issuing bonus shares with or without increasing its share capital; (iv) converting its shares into larger or smaller number of shares; and (v) cancelling its shares. The concept of authorized capital no longer applies to a Hong Kong company formed on or after 3 March 2014 as well. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities (if applicable).

Under the PRC Securities Law, a company which is authorized by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisal must be carried out to ensure no overvaluation or under-valuation of the assets. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons and other investment institutions as permitted by laws and regulations. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than

Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. In addition, pursuant to the "Announcement on Launching the Pilot Shanghai-Hong Kong Stock Connect" (《關於開展滬港股票市場交易互聯互通機制試點的公告》) ("Shanghai-Hong Kong Stock Connect Notice"), qualified PRC investors could buy specified overseas listed shares through systems such as Shanghai-Hong Kong Stock Connect.

Under the PRC Company Law, shares in a joint stock limited liability company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares held by its directors, supervisors and senior management transferred each year during their term of office shall not exceed 25% of the total shares held by them, and the shares of the company held by such person cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after such person has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares, as illustrated by the undertakings given by our Company and our controlling shareholder to the Hong Kong Stock Exchange described in the section entitled "Underwriting" in this prospectus.

Financial Assistance for Acquisition of Shares

The PRC Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance for acquisition of shares similar to those under the Hong Kong company law.

Variation of Class Rights

The PRC Company Law has no special provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in the appendix entitled "Appendix V – Summary of the Articles of Association" to this prospectus.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Supervisory Committee

Under the PRC Company Law, a joint stock limited company's directors and managers are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the supervisory committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favor of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' Meetings

Under the PRC Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum period of notice of a general meeting, where convened for the purpose of considering ordinary resolutions, is 14 days and, where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is 21 days.

Quorum for Shareholders' Meetings

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution

requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Information Disclosure

Under the PRC Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial position and other relevant annexure 20 days before its shareholders' annual general meeting. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial position. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong

Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of overseas listed foreign shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change the form of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders on one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the PRC Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the Company

Under the PRC Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors and supervisors are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days under certain circumstances) in a year, whereas, as required by the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

HONG KONG LISTING RULES

The Hong Kong Listing Rules provide additional requirements applicable to an issuer which is incorporated in the PRC as a joint stock limited liability company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company.

Compliance Advisor

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its first full year's financial results. The compliance advisor should provide the company with professional advice on continuous compliance with the Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorized representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. The company should proactively discuss and seek advice and maintain regular contact with its compliance advisor and keep them apprised of developments in the company and proposed corporate actions. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the company are expected to be outside Hong Kong frequently.

Accountants' Report

The accountant's report must normally be drawn up in conformity with: (a) HKFRS; or (b) IFRS; or (c) China Accounting Standards for Business Enterprises ("CASBE") in the case of a PRC issuer that has adopted CASBE for the preparation of its annual financial statements.

Process Agent

A company is required to appoint and maintain a person authorized to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange. The company must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

Public Shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15% of the issuer's total issued share capital, having an expected market capitalization at the time of listing of not less than HK$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the issuer is expected to have a market capitalization at the time of listing of more than HK$10,000 million.

Independent Non-executive Directors and Supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the requisite character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

Restrictions on Purchase and Subscription of Its Own Securities

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase our own H shares on the Hong Kong Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Hong

Kong Stock Exchange. The Directors must also state the consequences (if any) of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which they are aware. Any general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares.

Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in the appendix entitled "Appendix V – Summary of the Articles of Association" to this prospectus.

Redeemable Shares

Our Company must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

Pre-emptive Rights

Except under the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of Shareholders in a general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorizing, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Listing Rules, but only to the extent that the existing Shareholders of our Company have by special resolution in a general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing Domestic Shares and H Shares as of the date of the passing of the relevant special resolution or of such Shares that are part of our plan at the time of our establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

Supervisors

Our Company is required to adopt rules governing dealings by the Supervisors in securities of our Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Listing Rules) issued by the Hong Kong Stock Exchange.

Our Company is required to obtain the approval of the Shareholders in a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to our Company or any of our subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of our Company or our subsidiaries: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires our Company to give more than one year's notice or to pay compensation or make other payments equivalent to more than one year's emoluments.

The Remuneration Committee of our Company or an independent board committee must form a view in respect of service contracts that require Shareholders' approval and advise Shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and the Shareholders as a whole and advise Shareholders on how to vote.

Amendment to the Articles of Association

Our Company is required not to permit or cause any amendment to be made to the Articles of Association which would cause the same to cease to comply with the Mandatory Provisions relating to such Articles of Association.

Documents for Inspection

Our Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by Shareholders at reasonable charges of the following:

- A complete duplicate register of Shareholders;
- A report showing the state of the issued share capital of our Company;
- Our Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;
- Special resolutions of our Company;
- Reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares); and
- For Shareholders only, copies of minutes of meetings of Shareholders.

Receiving Agents

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in Share Certificates

Our Company is required to ensure that all of our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our share registrars not to register the subscription, purchase or transfer of any of our shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of the shares:

- Agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;

- Agrees with our Company, each Shareholder, Director, Supervisor, manager and officer of our Company, and our Company acting for itself and for each Director, Supervisor, manager and officer of our Company agrees with each Shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- Agrees with our Company and each Shareholder of our Company that the H Shares in the share capital of our Company are freely transferable by the holder thereof; and

- Authorizes our Company to enter into a contract on his behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to Shareholders as stipulated in the Articles of Association.

Legal Compliance

Our Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

Contract between Our Company and Our Directors, Officers and Supervisors

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- An undertaking by the Director or officer to our Company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that our Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- An undertaking by the Director or officer to our Company acting as agent for each Shareholder to observe and comply with his obligations to Shareholders as stipulated in the Articles of Association;

- An arbitration clause which provides that whenever any differences or claims arise from any rights or obligations conferred or imposed by that contract, the Articles of Association, the PRC Company Law or other relevant law and administrative regulations concerning the affairs of our Company between our Company and the Directors or officers and between a holder of H Shares and a Director or officer of our Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC; PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;

- The award of the arbitral body is final and shall be binding on the parties thereto;

- The agreement to arbitrate is made by the Director or officer with our Company on our own behalf and on behalf of each Shareholder; and

- Any reference to arbitration shall be deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

Subsequent Listing

Our Company must not apply for the listing of any of the H Shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign shares are adequately protected.

English Translation

All notices or other documents required under the Listing Rules to be sent by our Company to the Hong Kong Stock Exchange or to holders of the H Shares are required to be in the English language, or accompanied by a certified English translation.

General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the bases upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the Listing.

OTHER LEGAL AND REGULATORY PROVISIONS

Upon the Listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to our Company.

SECURITIES ARBITRATION RULES

The securities arbitration rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purposes of the securities arbitration rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

This appendix contains a summary of the Company's Articles of Association for the main purpose of outlining it to potential investors. As a summary only, all the important information to potential investors may not be exhaustive here.

DIRECTORS AND THE BOARD OF DIRECTORS

(a) Power to Allot and Issue Shares

There is no provision in the Articles of Association empowering the Directors to allot and issue the Company's shares.

To increase the capital of the Company, the Board is responsible for formulating proposals for approval at a general meeting by way of special resolution. Any such increase must be conducted in accordance with the relevant laws, administrative regulations and other regulatory requirements.

(b) Power to Dispose of the Assets of the Company and Its Subsidiaries

The decision-making power of the Board of Directors to the external investment, acquisition or sale of assets, pledge of assets, entrusted financial management and financing is limited to the amount of a single external investment, acquisition or sale of assets, pledge of assets, entrusted financial management and financing exceeding 10% or more and below 30% of the most recently audited total assets, the implementation of which is subject to the approval of the Board of Directors. And the single amount below 10% of the most recently audited total assets shall be decided by the management of the Company. Unless the approval procedures for the external investment, acquisition or sale of assets, pledge of assets, entrusted financial management and financing otherwise specified in the applicable laws, regulations and Listing Rules, such laws, applications, and Listing Rules shall apply.

No Director may act on behalf of the Company or the Board of Directors in his/her own name unless these Articles of Association or Board of Directors duly authorize. A Director shall declare his/her position and identity in advance if, such Director is acting in his/her private capacity, insofar as a third party would reasonably assume him/her to be acting on behalf of the Company or the Board of Directors.

(c) Compensation or Payment for Loss of Office

With the prior approval at a general meeting, the Company shall sign written contracts with its Directors and Supervisors concerning his/her emoluments. Such emoluments include:

(1) Emoluments in respect of his/her service as a Director, Supervisor and other senior management officers of the Company;

(2) Emoluments in respect of his/her service as a Director, Supervisor and other senior management officers of a subsidiary of the Company;

(3) Remuneration otherwise in connection with providing other management services to the Company or its subsidiary thereof; and

(4) Compensation for his/her loss of office or retirement as a Director or Supervisor.

Except for the aforesaid contracts, a Director or Supervisor shall not file any lawsuit against the Company for the benefits they shall obtain for the foregoing matters.

The Company shall regularly disclose the remuneration received by a Director, Supervisor or senior management officers from the Company to the shareholders.

In the contract for emoluments entered into by the Company with a Director or Supervisor, it shall be provided that such Director or Supervisor has the right to receive, in connection with the takeover of the Company and subject to the prior approval of the general meeting, compensation or other payments for loss of office or retirement from office. A takeover of the Company means either of the following circumstances:

(1) A tender offer is made to all shareholders;

(2) A tender offer is made such that the offeror will become the controlling shareholder of the Company (as defined in the Articles of Association).

If the relevant Director or Supervisor does not comply with the above requirements, any payment received by the Director or Supervisor shall belong to those persons who have sold their shares as a result of the aforesaid offer, and the expenses incurred in distributing that payment pro rata among those persons shall be borne by the relevant Director or Supervisor and not deducted from the payment distributed.

(d) Loans to Directors, Supervisors and Other Senior Management Officers

The Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with the making of a loan to Directors, Supervisors, or other senior management officers of the Company or its parent company, or any of their respective associates. The aforementioned provision shall not apply in the following circumstances:

- The Company provides its subsidiaries with loans or loan guarantees;

- The Company provides any of the Directors, Supervisors or senior management officers with loans, loan guarantees or any other funds pursuant to the employment contracts approved at the general meeting to pay all expenses incurred for the purpose of the company or performing duties for the Company; and

- In case that the normal scope of business of the Company covers the provision of loans or loan guarantees, our Company may provide any of the Directors, Supervisors or senior management officers or other related personnel with loans or guarantees for loans to the personnel, provided that the terms and conditions governing the above loans or loan guarantees shall be on normal commercial conditions.

A loan made by the Company in breach of the above provisions shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by the Company in breach of the above provisions shall be unenforceable against the Company, unless:

(1) At the time when the loan was provided to an associate of any of the Directors, Supervisors and other senior management officers of the Company or its parent company, the lender did not know the relevant circumstances; or

(2) The collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

The aforesaid guarantee includes the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor.

(e) Financial Assistance provided for the Acquisition of Shares in the Company or Its Subsidiary

The Company or its subsidiaries shall not, by any means at any time, provide any financial assistance to any person who acquires or intends to acquire the shares of the Company. Persons who acquire shares of the Company as mentioned above shall include persons who directly or indirectly assume relevant obligations as a result of purchasing shares of the Company.

The Company or its subsidiaries shall not, by any means at any time, provide any financial assistance for the aforementioned obligors to reduce or relieve them of their obligations.

Aforesaid financial assistance includes but is not limited to following activities:

- Gift;

- Guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), compensation (excluding compensation arising from mistakes of the company), release or waiver of any rights;

- Assistance given by way of a loan; or entering into a contract under which the obligations of the Company are to be fulfilled before the obligations of another party, or a change in the parties to, or the assignment of rights arising under, such loan or contract; and

- Any other form of financial assistance given by the Company when it is insolvent or has no net assets or will suffer significant decrease in net assets as a result of the financial assistance.

The aforesaid assuming obligations includes assuming obligations by signing a contract or making an arrangement (whether or not the aforesaid agreement or arrangement is enforceable, or assuming the obligations by itself or jointly with any other person), or changing its financial condition in any other way.

The following activities shall not be deemed to be prohibited activities:

- The provision of financial assistance by the Company is given in good faith in the interest of the Company, and the principal purpose of the financial assistance is not for the acquisition of the Company's shares, or is incidental to a master plan of the Company;

- The lawful distribution of the Company's assets by way of dividend;

- Distribution of dividends in the form of Shares;

- Reduction of registered capital, repurchase of shares or adjustments of the shareholding structure pursuant to the Articles of Association;

- The Company grants loans within the scope of business and in the ordinary course of the business, provided that such loans shall not result in the reduction in the net assets of the Company or even if the net assets are reduced, this financial assistance is paid out of the profit available for distribution of the Company; and

- The Company provides the employee stock ownership plan with funds, provided that such loans shall not result in the reduction in the net assets of the Company or even if the net assets are reduced, this financial assistance shall be paid out of the profit available for distribution of the Company.

(f) Disclosure of Interests in Contracts with the Company or any of Its Subsidiaries

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors, general manager and other senior management officers), the above personnel shall disclose the nature and degree of their interests to the Board of Directors as soon as possible regardless of whether such matters are subject to the approval of the Board of Directors in normal circumstances.

A Director and any his associates (as defined in the Listing Rules in effect from time to time) shall not be entitled to vote on any resolution of the board in respect of any contract, transaction, arrangement or any other proposals which he has material interests with. And he would not be counted in the quorum when attending the meeting.

Unless the interested Director, Supervisor and senior management officers of the Company has disclosed such interest to the Board as required under the preceding paragraph hereof and the relevant matter has been approved by the Board at a meeting in which he/she is not counted in the quorum and has refrained from voting, the Company shall have the right to void the contract, transaction or arrangement, except the other party is a bona fide party acting without knowledge of the breach of obligation by the relevant Director, Supervisor and senior management officers concerned.

A Director, Supervisor, and senior management officers of the Company is deemed to be interested in such contract, transaction or arrangement in which his/her related person is interested.

Where a Director, Supervisor or senior management officers of the Company gives to the Board of Directors a notice in writing stating that, by reason of the facts specified in the notice, he/she is interested in contracts, transactions or arrangements which may subsequently be made by the Company, that notice shall be deemed for the purposes of the preceding article to be a sufficient disclosure of his/her interests, so far as the content stated in such notice is concerned, provided that such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

(g) Remuneration

The Company shall, with the prior approval of the general meeting, enter into a contract in writing with each Director or Supervisor concerning his/her remuneration.

(h) Retirement, Appointment and Removal

The Company shall establish a Board. The Board shall comprise 9 Directors, including 3 Independent Directors. A Director need not hold any shares of the Company.

The general manager or other senior officers may concurrently serve as a Director, provided that the aggregate number of the Directors who concurrently serve as general manager or other senior officers shall not exceed one half of all the Directors of the Company.

Directors shall be elected and replaced at general meetings and serve a term of 3 years. A Director may serve consecutive terms if re-elected upon the expiration of his term.

Any person appointed by the Board to fill up a casual vacancy in the Board or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election.

Subject to the relevant laws and administrative regulations, Directors can be removed before the expiration of his/her term of office (but without prejudice to any claim for damages under any contracts) by an ordinary resolution passed at a general meeting.

A written notice of the intention to propose a person for election as a Director and a written notice showing such person is willing to be elected shall be given to the Company after the publication of general meeting notice, and at least 7 days before the date of the general meeting.

A Director shall be deemed as unable to perform his/her duties if failing to attend two consecutive board meetings in person without appointing another Director as proxy to attend the meetings on his/her behalf. In such cases, the Board of Directors shall request the general meeting to replace him/her.

Directors may tender their resignations prior to the expiration of their terms of office. If the resignation of a Director causes the number of in-service Directors fall below the statutory minimum, the original Director shall continue to perform his/her duties as a Director in accordance with laws, administrative regulations, rules and the Articles of Association until the incoming Director assumes his/her position. Except in the circumstance specified in the preceding paragraph, a Director's resignation shall be effective upon his/her written resignation being served to the Board of Directors.

When a Director's resignation becomes effective or his/her term of office expires, he/she shall duly carry out all handover procedures with the Board of Directors. And his/her loyalty and honesty duty to the Company and the shareholders shall not, as a matter of course, terminate at, and shall survive, the end of his/her term of office, and maintain the effectiveness within a reasonable period specified by the Articles of Association. The Director's obligation to maintain the confidentiality of the Company's trade secrets shall survive the end of his/her term, until such secrets enter the public domain.

Any Director who causes the Company to sustain a loss due to his/her unauthorized absence from office prior to the end of his/her term or in violation of laws, administrative regulations, rules or the Articles of Association during the performance of his/her Company duties, shall be liable for damages.

A person may not serve as a Director, Supervisor, general manager or any other senior management officers of the Company in any of the following circumstances:

(1) Anyone who has no civil capacity or has limited civil capacity;

(2) Anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;

(3) Anyone who has served as a Director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of the company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of the company or enterprise;

(4) Anyone who has served as the legal representative of a company or enterprise whose business license was revoked or which was ordered shut down due to a violation of law, was personally liable, and is within three years of the date on which the business license of the company or enterprise was revoked;

(5) Anyone who owes a huge amount of overdue debt;

(6) Anyone who is under criminal investigation by the judicial organization for violating the criminal law and whose case is pending;

(7) Anyone who cannot serve as management of a company under laws and administrative rules;

(8) A non-natural person;

(9) Anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made; and

(10) Other circumstances as provided by laws and regulations in the place where the Shares of the Company are listed.

(i) Borrowing Powers

Please see the relevant requirements for the above said item (d) and (e).

Modification to the Articles of Association

The Company may, in accordance with provisions contained in relevant laws, administrative regulations and the Articles of Association, amend its Articles of Association.

The Articles of Association shall be amended according to the following procedures:

- The Board shall approve a resolution to amend the Articles of Association, and prepare the proposed amendments;

- The Board shall convene a general meeting to vote on the amendments to the Articles of Association in general meeting;

- The amendments to the Articles of Association are passed by way of a special resolution approved by the general meeting;

- The Company shall submit the revised articles of association to the company registration authority for filing.

Where the amendments to the Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by the company approval authorities of the State Council and the securities commission of the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with law.

Special Procedures for Voting by Class Shareholders

Shareholders holding different class of shares shall be class shareholders. In addition to holders of shares of other classes, the holders of domestic shares and overseas-listed foreign shares are also different classes of shareholders.

Any variation or abrogation of the rights of any class of shareholders proposed by the Company shall be approved by a special resolution of a shareholders' general meeting and by the shareholders of the affected class at a separate class meeting convened in accordance with the relevant provisions. The following circumstances shall be deemed to be variation or abrogation of the rights of shareholders of a certain class:

(1) increase or decrease in the number of shares of that class, or increase or decrease in the number of shares of another class having the same or more rights in voting, distribution or other privileges;

(2) conversion of all or part of the shares of that class into shares of other classes, or conversion of all or part of the shares of other classes into shares of that class or granting rights of such conversion;

(3) removal or reduction of the entitlement and rights to receive and retain dividends attributable to shares of that class;

(4) reduction or removal of the priority of the shares of that class to receive dividends or distribution of in the event of liquidation;

(5) increase, removal or reduction of the right of conversion, options, voting rights, the right to transfer, priority in placement of shares and the right to acquire securities of the Company attached to shares of that class;

(6) removal or reduction of the right to receive sums payable by the Company in particular currencies attached to shares of that class;

(7) creation of a new class of shares having the same or more rights in voting, distribution or other privileges;

(8) imposing or strengthening the restriction on the transfer of or the ownership of the shares of that class;

(9) issue of rights to subscribe for or convert into shares of that class or other classes;

(10) increase in the rights and privileges of shares of other classes;

(11) proposed restructure of the Company which shall result in different classes of shareholders having to assume disproportionate liabilities; and

(12) alteration or cancellation of the provision of this Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at shareholders' general meetings, shall have the right to vote at the relevant class meeting in relation to any of the matters under circumstances (2) to (8) and (11) to (12) mentioned above, but interested shareholders shall not be entitled to vote at the relevant class meeting. A resolution of a class meeting shall be passed by at least a two-thirds majority calculated on the basis of the voting rights held by the shareholders present and entitled to vote at the class meeting.

The quorum for a separate class meeting (other than an adjourned meeting) to consider a variation of the rights of any class of shares shall be the holders of at least one-third of the issued shares of that class.

The special procedures for voting by class shareholders shall not apply in the following circumstances:

- pursuant to a special resolution of shareholders' general meeting, the Company issues domestic shares and overseas-listed foreign shares in a period of 12 months, either separately or concurrently, and the respective numbers of domestic shares and overseas-listed foreign shares proposed to be issued do not exceed 20% of the respective numbers of the issued domestic shares and overseas-listed foreign shares;

- issue of domestic shares upon establishment of the Company and issue of overseas-listed foreign shares pursuant to a plan approved by the CSRC within 15 months from the date of approval; and

- conversion of unlisted shares into foreign shares for listing and trading in an overseas stock exchange pursuant to approval from the CSRC.

- Upon the approval by a special resolution at the general meeting, the Company either separately or concurrently issues domestic shares and overseas listed foreign shares every 12 months, and the number of shares of each class to be issued shall not account for more than 20% of the outstanding shares of such class;

- The plan to issue domestic shares and overseas listed foreign shares upon the establishment of our Company is completed within 15 months of the date of approval by the securities regulatory authority of the State Council; or

- Upon the approval by the State Council or the approval authority authorised by it, the shares held by promoters are converted into foreign shares and become listed for trading on an overseas stock exchange.

ADOPTION OF SPECIAL RESOLUTIONS REQUIRES MAJORITY VOTE

Resolutions of general meetings shall be divided into ordinary resolutions and special resolutions. Adoption of an ordinary resolution at a general meeting shall be subject to approval by the majority of votes represented by the shareholders (including their proxies) attending the meeting. Adoption of a special resolution at the general meeting shall be passed by votes representing two-thirds and more of the voting rights held by the shareholders (including proxies) present at the meeting.

Voting Rights (Generally on a Poll)

Shareholders (including proxies) when voting at a general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote. However, the shares held by the Company shall carry no right to vote and shall not be counted into the total number of shares carrying the right to present and vote at a general meeting. When the general meeting is reviewing connected transactions, the connected shareholders may not vote and the shares they held shall not be counted into the effective total voting shares.

At any general meeting a resolution shall be passed by a show of hands subject to any requirement of laws, administrative regulations, the relevant regulatory authorities or the listing rules of the stock exchange in the place where the Company's shares are listed, or a poll is demanded by the following persons prior to or after a show of hands:

(1) By the chairman of the meeting;

(2) By at least two shareholders entitled to vote present in person or by proxy; or

(3) By shareholders (including proxies) individually or in aggregate representing 10% or more of all shares carrying the right to vote at the meeting.

Unless somebody proposes voting by poll, the Chairman of the meeting shall declare whether the proposal has been adopted according to the results of the vote by a show of hands, and shall record the same in the minutes of the meeting, which shall serve as final evidence without having to state the number or proportion of the votes for or against the resolution adopted at the meeting.

The demand for a vote by poll may be withdrawn by the person who makes such demand.

If the matter demanded to be voted upon by poll is the election of the Chairman or the adjournment of the meeting, a poll shall be taken forthwith. A poll demanded on any other matter shall be taken at such time as the chairman of the meeting directs and the meeting may proceed with the discussion of such matters; the results of the poll shall still be regarded as a resolution passed at that meeting. On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all of his/her votes in the same way or abstain from voting.

Requirements for Annual General Meetings

The annual general meeting shall be convened once a year and be held within 6 months of the end of the previous accounting period.

Accounts and Audit

(a) Financial and Accounting Systems

The Company shall establish its financial and accounting systems in accordance with the laws, administrative regulations and other requirements of relevant departments of the PRC.

The accounting year of the Company shall adopt the calendar year, that is, starting from 1 January of every calendar year to 31 December of every calendar year. At the end of each accounting year, the Company shall prepare a financial report which shall be examined and verified in a manner prescribed by laws.

The financial statements of the Company shall, in addition to being prepared in accordance with the PRC accounting standards and regulations, be prepared in accordance with either IFRS or that of the place outside PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with both accounting standards, such difference shall be stated and explained in the notes to the financial statements. For the purposes of distribution of the Company's after-tax profits in a financial year, the lower of the after-tax profits as shown in both sets of financial statements shall be adopted.

The Board of the Company shall place before the shareholders at every annual general meeting such financial reports which the relevant laws, administrative regulations and rules as well as directives promulgated by local governments and competent authorities require the Company to prepare.

The financial reports of the Company shall be made available at the Company for inspection by shareholders 20 days before the annual general meeting. Every shareholder of the Company is entitled to a copy of the financial reports as referred to in this Chapter. A copy of the above report shall, at least 21 days before the date of the annual general meeting, be delivered or sent by pre-paid post to every shareholder of foreign shares listed overseas, and the address on the register of shareholders shall be the address of the recipient.

The interim results or financial information published or disclosed by our Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the place overseas where our Company's Shares are listed.

The Company shall disclose its financial reports two times in each financial year, that is, its interim financial reports within 60 days of the end at the first six months of a financial year and publishing annual financial reports within 120 days after the end of a financial year.

The Company shall not keep any other books of accounts other than those provided by law. The Company's assets are not deposited in an accounts opened in the name of any individuals.

(b) Appointment of an accounting firm

The Company shall appoint an independent firm of accountants which is qualified under the relevant national regulations to audit the Company's annual financial reports and review the Company's other financial reports.

The first accounting firm of the Company may be appointed by the meeting of inauguration before the first annual general meeting, and its term of office shall be terminated at the end of the first annual general meeting.

- The employment term of an accounting firm engaged by the Company shall commence upon the end of the annual general meeting of the Company and end upon the end of the next annual general meeting.

If the office of the accounting firm becomes vacant, the Board may, prior to the convening of general meeting, appoint an accounting firm to fill such vacancy. However, if another accounting firm is in office during the sustained period of vacancy, such accounting firm may continue to act.

Regardless of what is stipulated in the contract concluded between an accounting firm and the Company, the general meeting may, before the expiration of term of office for the accounting firm, decide to dismiss that firm through the adoption of an ordinary resolution. If such accounting firm has the right to claim compensation from the Company for reason of such dismissal, that right shall not be affected.

The remuneration or the way of remuneration for the accounting firm shall be decided by the general meeting.

The engagement, dismissal or non-renewal of engagement of an accounting firm shall be decided by the general meeting and be reported to the securities authority under the State Council for the record.

In case that the Company dismisses or does not renew the engagement of an accounting firm, it shall give advance notice to the accounting firm, and the accounting firm is entitled to express its opinions at the general meeting. The voluntary resigning accounting firm shall, at the general meeting, explain whether the Company has done anything improper.

The accounting firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

(1) A statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or

(2) A statement of any such circumstances.

Where the above notice is deposited, the Company shall within 14 days send a copy of the notice to the relevant governing authority. If the notice contains a statement under Clause (2) of this Article, a copy of such statement shall be placed at the Company for shareholders' inspection. The Company shall also send a copy of such statement by prepaid mail to every holder of overseas listed foreign shares at the address registered in the register of shareholders, or the Company may publish its report on the website of the Hong Kong Stock Exchange or in one or more newspapers specified by it within foregoing deadline. Once an announcement is made, all shareholders are deemed to have received the aforementioned copies.

If the resignation notice of an accounting firm contains any statement mentioned in Clause (2) of this Article, the accounting firm may require the Board to convene an extraordinary general meeting to listen to its explanation on relevant matters about its resignation.

Notice of Meetings and Business to be Conducted thereat

(a) Functions of the General Meeting

The general meeting is the organ of authority in the Company, and shall exercise the following functions and powers in accordance with the law:

(1) To decide on the business policies and investment plans of the Company;

(2) To elect and replace these Directors and Supervisors not held by the staff representative, and decide on matters related to the remuneration of the Directors and Supervisors;

(3) To consider and approve the report of the Board of Directors;

(4) To consider and approve the report of the Supervisory Committee;

(5) To consider and approve the annual financial budget plan and final accounts plan of the Company;

(6) To consider and approve the profit distribution plan and loss recovery plan of the Company;

(7) To resolve on the increase or decrease of the Company's registered capital;

(8) To resolve on the issuance of corporate bonds, any types of share certificate, warrants and other similar securities;

(9) To resolve on matters such as the merger, division, dissolution or liquidation of the Company, or change in the corporate form of the Company;

(10) To amend the Articles of Association of the Company;

(11) To resolve on the employment, further employment, or dismissal of the accounting firm of the Company; to consider and approve the matters on external security requiring the approval of the general meeting;

(12) To consider the purchase or sale of major assets of the Company within one year exceeding 30% of the most recently audited total assets;

(13) To consider stock incentive plan;

(14) To resolve on the repurchase of the Company's shares;

(15) To consider the motion raised by shareholders representing more than 3% (3% inclusive) of the Company's shares with voting rights; and

(16) Consider other matters required to be determined by the general meeting under laws, administrative regulations, and the Articles of Association.

The Company shall not, without the prior approval of special resolution made at general meeting, enter into any contract with any person other than a Director, Supervisor, or other senior management officers whereby the management and administration of the whole or any substantial part of the business of the Company is to be handed over to such person, unless in special circumstances such as that the Company is in a crisis.

(b) Convening of general meeting

The general meeting falls into annual general meeting and extraordinary general meeting.

The extraordinary general meeting shall be held when necessary. The Board shall convene the extraordinary general meeting within 2 months from the occurrence of any of the following circumstances:

(1) The number of Directors is lower than the minimum number of Directors specified in the PRC Company Law, or less than two-thirds of the total number of Directors specified in the Articles of Association;

(2) The Company's uncovered losses amount to one-third of the Company's total share capital;

(3) Shareholders individually or collectively representing 10% or more of the Company's voting shares request in writing, and the numbers of shareholders shall be calculated on the date when the shareholders present the written request;

(4) The Board consider it necessary;

(5) The Supervisory Committee propose that such a meeting shall be convened;

(6) Two or more independent Directors propose that such a meeting shall be convened; and

(7) Other circumstances as provided by laws, administrative regulations, rules, listing rules of the local stock exchange where the stocks of the Company are listed, or the Articles of Association of the Company.

In any of the circumstances referred to in (3), (4) and (5) above, the matter for consideration proposed by the party requesting the holding of the extraordinary general meeting shall be included in the agenda of such meeting.

The shareholders request for the convening of the extraordinary general meeting or meeting of class shareholders shall follow the procedure below:

- Shareholders who individually or collectively hold 10% or more of the Shares carrying voting rights on the proposed general meeting can request the Board to convene an extraordinary general meeting or a class meeting by signing one or several copies of written request(s) in the same form and content, and stating the motions proposed. The Board shall convene the extraordinary general meeting or the class meeting as soon as practicably upon receipt of the foresaid written requirement. The number of shareholdings referred to above shall be calculated as at the date of request made.

- If the Board fails to issue a notice on the convening of meeting within 30 days after receiving the aforesaid written request, the proposing shareholders are entitled to submit a written request to the Supervisory Committee on the convening of extraordinary general meeting or meeting of the class shareholders.

- If the Supervisory Committee fails to issue a notice on the convening of meeting within 30 days after receiving the aforesaid written request, the shareholders individually or collectively representing 10% or more of the Company's voting shares at the proposed meeting for at least consecutive 90 days may convene the meeting on their own within four months after the Board of Directors receives the request. The convening procedures shall be the same as the procedures for the convening of general meeting by the Board of Directors.

The reasonable expenses arising from the convening and holding of meeting by shareholders due to the failure of Board of Directors and the Supervisory Committee in response of the aforesaid request shall be assumed by the Company, and deducted from the amount payable to the Directors or Supervisors committing dereliction of duty.

When the Company convenes a general meeting, a 45-day (including the date of the meeting) prior written notice of the meeting shall be given to notify all the shareholders in the register of members of the matters to be considered and the date and place of the meeting. A

shareholder who intends to attend the meeting shall deliver a written reply concerning the attendance of the meeting to the Company 20 days before the date of the meeting. The calculation of the starting date shall exclude the day when the meeting is held.

The notice of the general meeting shall be sent in person or by postage-paid mail, to the shareholders regardless of whether such shareholders have the right to vote at the general meeting, and each recipient's address shall be according to the address indicated on the register of shareholders. For holders of domestic shares, the notice of our general meeting shall be given in the form of an announcement. The announcement referred herein shall be published in one or more newspapers designated by the securities regulatory agency of the State Council 45 to 50 days prior to the meeting. All holders of domestic shares shall be deemed to have received the notice of general meeting upon the publication of the announcement. The notices served to holders of overseas listed foreign shares may be published on the Hong Kong Stock Exchange's website or in one or more newspapers designated by it. All holders of overseas listed foreign shares shall be deemed to have received the notice of general meeting upon the publication of the announcement.

The notice of general meeting shall satisfy the following requirements:

- Be given in writing;
- Specified time, venue and duration of the meeting;
- Specified matters to be deliberated at the meeting;
- Provision to the shareholders of materials and explanations necessary for the shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed conditions and contract(s), if any, of the proposed transaction(s) and proper explanations about related causes and effects when our Company proposes merger(s), redemption of Shares, restructuring of stock capital or other restructuring;
- In the event that any of the Directors, Supervisors or senior management officers has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor or senior management officers as a shareholder in a manner different from how they affect other shareholders of the same type, the difference shall be explained;
- Inclusion of the full text of any special resolution to be proposed for adoption at the meeting;
- A clear explanation that the shareholder is entitled to appoint one or more entrusted representative to attend and vote at the meeting on his/her behalf and that such may not necessarily be shareholders; and

- Specified delivery time and place of the power of attorney for proxy voting of the meeting.

The accidental omission to give the notice of a meeting to, or the non-receipt of such notice by, any person entitled to receive the notice shall not invalidate the meeting or the resolutions passed at the meeting.

The general meeting shall be convened and presided over by the Chairman of the Board. Where the Chairman is unable or fails to perform such duties, the Board of Directors may assign one Director of the Company to convene and preside over the meeting on behalf of the Chairman. Where no Chairman of the meeting is assigned, a Director jointly selected by present shareholders may preside over the meeting. Where nobody can be elected to preside over the meeting for whatsoever reasons, the shareholder (including the proxy) that is present at the meeting and holds the most voting shares may preside over the meeting.

In case a meeting is convened by the Supervisory Committee, it shall be presided over by the Chairman of the Supervisory Committee. If the Chairman of the Supervisory Committee is unable or fails to perform such duties, a Supervisor elected jointly by no less than half of the Supervisors shall preside.

In case a meeting is convened by the shareholders, it shall be presided over by the persons as elected by the proposing shareholders.

If the general meeting cannot continue due to the chairman's violation of the rules of procedures at the general meeting, one person may be elected by more than half of the shareholders with voting rights at the meeting, and the meeting is resumed. Where nobody can be elected to preside over the meeting for whatsoever reasons, the shareholder (including the proxy) that is present at the meeting and holds the most voting shares may preside over the meeting. Where the general meeting requires all Directors, Supervisors, and other senior management officers of the Company to attend the shareholders' meeting, the Directors, Supervisors and other senior management officers shall be present at the meeting.

The Chairman of the meeting shall determine whether a resolution has been passed at the general meeting according to the voting result, and shall announce the voting result at the meeting. Such decision is final. The voting results shall be recorded in the minutes of the meeting.

Any shareholder is entitled to look up copies of the minutes free of charge during office hours of the Company. Upon the request of any shareholder for a copy of the minutes of the meeting, the Company shall send the copy of the minutes within seven days after verifying the identity of the shareholders and receiving reasonable payment.

The Directors, Supervisors, and other senior management officers shall make explanations and demonstrations on the queries and suggestions of shareholders present at the general meeting, except those involving trade secrets that cannot be disclosed at the general meeting.

(c) Proposal at the general meeting

The Board of Directors, Supervisory Committee and shareholders individually or jointly holding no less than 3% of shares in the Company are entitled to make proposals at the general meeting.

The shareholders individually or jointly holding no less than 3% of shares in the Company may make extraordinary proposals 10 days prior to the convening of the general meeting and notify the convener in writing. The convener shall, within two days from the receipt of such proposal, give supplementary notice for the general meeting, and submit the extraordinary proposals to the general meeting for deliberation. Contents of the extraordinary proposals shall be within the scope of the functions and powers of the general meeting, and have clear subjects and specific resolution matters.

The appointment and election of Directors and Supervisors at the general meeting shall follow the ways and procedures below:

- Shareholders individually or jointly holding more than 3% of the total outstanding issued voting shares of the Company may, by way of a written proposal, put forward to the general meeting about the candidates for Directors and Supervisors (not being staff representative). However, the number of candidates proposed must comply with the provisions of the Articles of Association, and shall not be more than the number to be elected. The aforesaid proposal put forward by shareholders to the Company shall be served to the Company at least 14 days before the convening of the general meeting.

- Within the number of persons as specified by the Articles of Association and based on the proposed number of candidates to be elected, the Board of Directors and the Supervisory Committee may propose a list of candidates for Directors and Supervisors, which shall be submitted to the Board of Directors and the Supervisory Committee for examination, respectively. After the list of candidates for Directors and Supervisors are determined by deliberation and resolution of the Board of Directors and the Supervisory Committee, the list shall be proposed at a general meeting by way of a written proposal.

- The written materials for the intention to propose a candidate for election as a Director or a Supervisor, written notice of the candidate on his/her willingness to accept the nomination, and the details and written information of the nominated candidate shall be given to the Company no less than seven days prior to the date of convening the general meeting. The Board of Directors and the Supervisory Committee shall provide shareholders with the resume and basic information of the candidates for Directors and Supervisors.

- The period given by the Company to the relevant nominees and nominated candidates for submitting the aforesaid notice and documents shall be no less than seven days (such period shall commence from the day following the date of serving the notice of convening of the general meeting).

- At the general meeting, voting for each candidate for a Director and Supervisor shall be taken on a one-by-one basis.

- In the case of any temporary addition to or change in any Director or Supervisor in need, the Board of Directors and the Supervisory Committee shall propose and suggest at the general meeting for the election or replacement of a Director or Supervisor.

(d) Resolutions of the general meeting

The following matters shall be adopted by the general meeting through ordinary resolutions:

(1) Work reports of the Board of Directors and the Supervisory Committee;

(2) Plans formulated by the Board for the distribution of profits and for making up losses;

(3) The appointment or removal of members of the Board and Supervisory Committee (except for the employee representative Supervisors), and their remuneration and manner of payment thereof;

(4) Annual preliminary and final budgets, balance sheets, income and other financial statements of our Company; and

(5) Matters other than those required by the laws, administrative regulations or the Articles of Association to be approved by special resolutions.

The following matters shall be resolved by a special resolution at the general meeting:

(1) The increase or decrease in our Company's share capital, and issue of Shares of any class, warrants and other similar securities;

(2) The issue of debentures of our Company;

(3) Division, merger, dissolution and liquidation of our Company;

(4) Change in the form of our Company;

(5) Any material acquisition or disposal of assets by our Company or the guarantee within one year the amount of which shall exceed 30% of our Company's total audited assets for the latest financial period;

(6) Amendments to the Articles of Association;

(7) Share incentive plans to be considered and implemented;

(8) Any other matters as required by applicable laws, administrative regulations and the Articles of Association or as decided by the general meeting by way of an ordinary resolution, to be of a nature which may have a material impact on our Company and should be adopted by a special resolution; and

(9) Any other matters as required by the Listing Rules to be passed by way of the special resolution.

Transfer of Shares

Upon obtaining the approval from the State Council's securities regulatory authority, our Shareholders may list and trade their unlisted Shares in an overseas stock exchange. The listing and trading of such Shares shall comply with the procedures, regulations and requirements prescribed by the relevant overseas stock market. No class shareholder voting is required for such listing and trading of Shares on an overseas stock exchange.

Subject to the applicable laws, regulations and the requirements of the securities regulatory authorities in the place where the Company's shares are listed, the shares of the Company are transferrable free of lien. Transfer of overseas foreign shares listed in Hong Kong shall be registered by the share registrar in Hong Kong entrusted by the Company.

The Company shall not accept any pledge of its shares.

Promoter shares of the Company are not allowed to transfer within a year from the date of the establishment of the Company. Shares issued before the initial public offering of the Company are transferrable subject to the applicable laws, regulations and the relevant requirements of the Listing Rules. The transfer of more than 5% of the Company's shares shall be made in accordance with the applicable laws, regulations, statutory documents and the relevant requirements of the Listing Rules. Directors, supervisors and other senior management of the Company shall notify the Company of their shareholdings in the Company and changes thereof. The number of shares transferred by directors, supervisors and other senior management of the Company in a given year shall not be more than 25% of the total number of shares of the Company unless the transfer is required by law or by way of transmission, bequest and legal disposal of assets. The shares of the Company held by directors, supervisors and other senior management of the Company shall not be transferred within one year from the day on which the shares of the Company are listed. The aforesaid persons shall not transfer the shares of the Company held by them within six months from the date of their resignation.

Where any director, supervisor, senior management of the Company and shareholder holding 5% or above of the Company's shares in issue sell his/her shares within a period six months after their purchase, or repurchase shares in the Company within a period of six months after their disposal, the gains so earned shall belong to the Company. The Board of Directors shall demand such gains for the benefit of the Company. However, the six-month restriction shall not apply for a securities company holds 5% or more of the Company's shares as a result of its underwriting of the untaken shares in an offer.

All paid-up overseas listed foreign shares listed on the Stock Exchange may be transferred freely in accordance with the Articles of Association. However, the board may refuse to recognize any instrument of transfer without giving any reasons unless the following conditions are satisfied:

- instrument of transfer and any other documents related to the title of the shares or may affect the title of the shares are registered, and payment of a fee specified by the Listing Rules is made to the Company;

- the instrument of transfer only relates to the overseas listed foreign shares listed on the Stock Exchange;

- the stamp duty required by the law of Hong Kong for the instrument of transfer has been paid;

- the relevant share certificates and evidence reasonably required by the board showing that the transferor has the right to transfer such shares have been provided;

- if the shares are to be transferred to joint holders, the number of joint registered shareholders shall not exceed four; and

- the relevant shares of the Company are free from all liens.

If the board refuses to register the transfer of shares, the Company shall notify the transferor and transferee of the refusal within two months from the date of the application for registration of transfer.

Right to Repurchase Its Own Shares

Our Company may, according to provisions of laws, administrative regulations, Listing Rules and the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its shares under the following circumstances:

- Cancellation of shares for the purpose of reducing its registered capital of our Company;

- Mergering with other companies that hold shares in the Company;

- Reward of shares to the Company employees;

- Objection of its shareholders against the resolutions in relation to our Company's merger and division made at the general meeting and their request of acquisition of its shares; or

- Other circumstances permitted by laws and administrative regulations.

It shall be approved by the general meeting in accordance with the Articles of Association when the Company repurchases its shares for reasons referred in the above (1) to (3) or through off-market agreement outside of the stock exchange. After approval by the general meeting in the same manner, the Company may cancel or alter agreements made as the ways mentioned above, or waive any rights in such agreements. Share repurchase agreement referred in the above shall include, but not be limited to, agreements in which the Company agrees to assume obligations to repurchase shares and obtain rights of the repurchased shares.

The Company shall cancel shares within 10 days after acquisition if the Company repurchases its shares due to reasons referred in the above (1); the Company shall transfer or cancel repurchased shares within 6 months if it repurchases the same for reasons referred in the above (2) and (4); numbers of repurchased shares shall not exceed 5% of total shares issued by the Company if the Company repurchases its shares due to reasons referred in the above (3) and fund used to acquire the shares shall be paid out of after-tax profits of the Company and repurchased shares shall be transferred to its employees within 1 year.

The Company cannot assign any contract for the repurchase of its shares or any rights contained in such contract. The Company can repurchase its shares in one of the following ways with approval from the relevant competent authority of the State:

- Making a repurchase offer to all of its shareholders on a pro rata basis;
- Repurchasing shares through public dealing on a stock exchange;
- Repurchasing shares by an off-market agreement outside of the stock exchange; or
- Other ways permitted by laws, administrative regulations, or subject to the relevant competent authority.

After our Company cancelled the repurchase of its own shares according to law; an application for the registered capital change shall be filed with the original company registration authorities, along with relevant announcements. The aggregate par value of the shares cancelled shall be deducted from the Company's registered capital.

Where our Company has the rights to repurchase redeemable shares: in case of a repurchase made other than through market or by tender, the price of which shall be limited at a maximum price; in case of a repurchase by tender, the tenders shall be made available to all shareholders. Our Company shall not assign a contract to repurchases the shares or any of the rights thereunder.

Unless the Company is in the course of liquidation, it shall comply with the following provisions when repurchasing its issued shares:

- Where the Company repurchases its own shares at par value, payment shall be deducted from the book surplus on the distributable profits of the Company and out of proceeds of the new issue of shares made for that purpose;

- Where the Company repurchases its own shares at a premium to its par value, payment equivalent to the par value shall be deducted from the book surplus on the distributable profits of the Company and the proceeds from the new share issue for the purpose of repurchasing the existing shares; the portion in excess of the par value shall be effected as follows:

  (1) If the shares being repurchased are issued at par value, the payment shall be deducted from the book surplus on the distributable profits of the Company;

  (2) If the shares being repurchased were issued at a premium to the par value, payment shall be deducted from the book surplus on the distributable profits of the Company and the proceeds from the new share issue for the purpose of repurchasing the existing shares; however, the amount deducted from the proceeds from the new share issue shall neither exceed the aggregate amount of premium from the issue of the existing shares repurchased nor shall it exceed the amount (including the premiums from the new share issue) in the premium account (or the capital reserve account) at the time of repurchase.

- Payments for the following purposes shall be made out of the Company's distributable profits:

  (1) Acquisition of the right to repurchase shares of the Company;

  (2) Modification of any contract to repurchase shares of the Company; or

  (3) Release of any of the Company's obligation under any repurchase contract.

- After the total par value of the cancelled shares is deducted from the Company's registered capital in accordance with relevant requirements, the amount deducted from the distributable profits for the repurchase of the shares at par value shall be transferred to the Company's premium account (or its capital reserve account).

Right to Own the Shares of the Company by Any of Its Subsidiaries

No provision in the Articles of Association prohibits any subsidiary from holding the shares of the Company.

Dividends and Other Methods of Profit Distribution

The Company may distribute the dividends in the form of cash or shares certificate.

The Company is entitled to interest on the monies paid for any shares before share capital is called for, simply their advances on subscription of shares are not entitled to participate in the dividends subsequently declared.

Under the premise in pursuant to relevant PRC laws and regulations, our Company may exercise the right to forfeit unclaimed dividends, but that power shall not be exercised until or after 6 years from the declaration of dividend distribution.

Our Company shall appoint recipient agents for holders of overseas listed foreign shares to collect on behalf of the relevant shareholders the dividends distributed and other funds payable in respect of overseas listed foreign shares by our Company, and to keep those monies for later payment to the related shareholders.

The receiving agents appointed by the Company shall comply with the laws or relevant requirements of the stock exchange where Company are listed.

Shares of the Company that are held by the Company itself shall not participate in the distribution of profits.

The receiving agent appointed by our Company on behalf of holders of overseas listed foreign shares listed in the Hong Kong Stock Exchange shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

The Company shall be entitled to cease sending dividend warrants by mail to a holder of overseas listed foreign shares, provided that such a dividend warrant has not been cashed for two consecutive occasions. However, the Company may also exercise such power after the first occasion when such a warrant is returned undelivered.

The cash dividends and other amounts payable by our Company to the holders of domestic shares shall be paid in Renminbi. The cash dividends and other amounts payable by our Company to the holders of overseas listed foreign shares shall be denominated and declared in Renminbi and paid in Hong Kong dollars. The foreign currency required for the payment of cash dividends and other amounts by our Company to the holders of overseas listed foreign shares shall be arranged in accordance with the provisions of the PRC in relation to foreign exchange administration. Unless otherwise provided in relevant laws and regulations, where cash dividends are paid in a foreign currency, the average selling price of the relevant foreign exchange posted by the People's Bank of China for the Gregorian calendar week immediately preceding the date of declaration of the dividends after general meeting approval (including such a date) shall be used as the exchange rate.

Proxies of Shareholders

Any shareholders entitled to attend and vote at the general meeting of our Company shall be entitled to appoint one or more persons (a shareholder or not) as his/her proxies to attend and vote on his/her behalf. A proxy so appointed shall enjoy the following rights pursuant to authorization by that Shareholder:

- The shareholder's right to speak at the general meeting;
- The right to demand or join in demanding a poll; and
- The right to vote by hand or on a poll, but a proxy of a Shareholder who has appointed more than one proxy may only vote on a poll.

The appointment of a proxy by a shareholder shall be in writing and signed by the appointer or his/her attorney duly authorised in written, or in the case of a legal person, shall be either affixed with its legal person seal or signed by a Director or a duly authorised attorney.

Capital Calls and Confiscation of Shares

The Company may sell any of the shares of a shareholder who is untraceable and retain proceeds obtained from sale, if:

- Dividends of the relevant shares in question have remained unclaimed by any shareholder for a period of 12 years, which have been delivered at least 3 times; and

- Upon expiration of 12 years, the Company makes announcement in newspapers in respect of its intentions to sell the related shares after approval by the securities regulatory authority of State Council and notices of such authority and relevant overseas securities exchanges where shares of the Company listed and other relevant securities regulatory authority.

According to the appropriate methods of Board of Directors, the Company has the right to sell the shares of a overseas listed foreign shareholder not contactable, provided that it complies with the following conditions:

- That dividends on such shares have been delivered at least three times within 12 years and no claim has been made during such a period; and

- The Company gives notice of its intention to sell the shares by an announcement published in one or more newspapers in the place where the Company is listed and notifies the SEHK of such intention, after the expiry of the 12-year period.

The Register of Shareholders

The Company shall maintain a register of shareholders and register the followings:

- The name or designation, address or domicile, occupation or nature of each shareholder;

- The class and number of shares held by each shareholder;

- The amount paid or payable by each shareholder for the respective shares held;

- The serial numbers of shares held by each shareholder;

- The date when each shareholder is registered as a shareholder; and

- The date when each shareholder ceases to be a shareholder.

The register of shareholders shall be the sufficient evidence of the shareholders' shareholding in the Company, unless there is evidence to the contrary. Our Company may, in accordance with the mutual understanding and agreements made between the securities regulatory authorities of the State Council and overseas securities regulatory organizations maintain the register of holders of overseas listed foreign shares overseas and appoint overseas agents to manage such register of shareholders. The original register of holders of overseas listed foreign shares listed in Hong Kong shall be kept in Hong Kong.

Subject to the Articles of the Associations and other applicable regulations, name of a transferee of the shares shall be a shareholder and entered into register of shareholders once shares of the Company are transferred.

Acts or transfer made by all shareholders of overseas listed foreign shares shall be entered into register of shareholders of overseas listed foreign shares kept in where such shares list in accordance with the above provisions. A duplicate register of shareholders for the holders of overseas listed foreign shares shall be maintained at our Company's domicile. The appointed overseas agents shall ensure consistency between the original and the duplicate register of holders of overseas listed foreign shares at all times.

If there is any inconsistency between the original and the duplicate register of shareholders for the holders of overseas listed foreign shares, the original register of shareholders shall prevail.

Transfers may not be entered in the register of shareholders within 30 days prior to the date of a general meeting or within 5 days before the record date set by our Company for the purpose of distribution of dividends.

When our Company intends to convene a general meeting, distribute dividends, liquidate and engage in other activities that involve determination of shareholdings, the Board shall designate a day to be the record day. Shareholders whose names appear in the register of shareholders at the end of the record date are shareholders of our Company.

Any person who objects to the register of shareholders and requests to have his/her name (title) entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register.

Rights of Shareholders

The ordinary shareholder of our Company shall enjoy the following rights:

(1) To receive dividends and other distributions in proportion to the number of shares held;

(2) To legally request, convene, chair, attend or appoint a proxy to attend the general meetings and to exercise the voting right thereat;

(3) To supervise and manage our business and operational activities, provide suggestions or submit queries;

(4) To transfer, giving for free or making liens of Shares in accordance with the laws, administrative regulations and the Articles of Association;

(5) To obtain relevant information in accordance with the Articles of Association, including:

(i) The right to obtain a copy of the Articles of Association, subject to payment of costs; and

(ii) The right to inspect and copy, subject to payment of a reasonable fee:

(a) All parts of the register of shareholders;

(b) Personal particulars of each of our Company's Directors, Supervisors, general manager and other senior management officers;

(c) Our Company's equity position;

(d) Since the prior financial year, the par value of each class of shares repurchased by our Company, its quantity, the highest price and lowest price, and the report of all cost paid by our Company;

(e) Minutes of the general meetings; resolutions of the general meetings; resolutions of the Board meetings; and resolutions of the meetings of the Supervisory Committee;

(f) Counterfoils of our Company's bonds;

(g) The latest audited financial report, the report of the Board, auditor's report and the report of the Supervisory Committee; and

(h) Copy of the latest annual return filed with the administration for industry and commerce or other authorities of the PRC.

Our Company shall make the above documents available at our Company's domicile and place of business in Hong Kong for inspection by shareholders.

(6) To participate in the distribution of the remaining assets of our Company in proportion to the number of shares held upon our termination or liquidation;

(7) To require our Company to buy back shares when holding qualifications toward resolutions in respect of mergers or separation;

(8) To entitle shareholders holding, individually or in aggregate, more than 3% of shares of our Company to propose additional resolution in writing to the Board 10 days before the general meeting; and

(9) Other rights conferred by laws, administrative regulations, departmental rules and the Articles of Association.

Quorum for General Meetings and Separate Class Meetings

The Company shall calculate numbers of shares with voting rights represented by shareholder proposed to present the meeting in accordance with written reply received 20 days before commencement of general meeting. If the number of shares carrying voting rights represented by the shareholders intending to attend a meeting exceeds one half of the total number of shares carrying voting rights, our Company may convene the general meeting; otherwise, the Company shall notify the shareholders again the businesses to be transacted, meeting date and place through public announcement within 5 days, then the Company may convene the meeting.

The quorum required for any class shareholders' meeting only concerning the change in the rights of that class of shares (excluding the resumed session) must be at least one third of the holders of that class of issued shares. If the number of voting shares represented by the shareholders who intend to attend the meeting reach one half or more of the Company's total voting shares at the class meeting, the Company may convene the class shareholders' meeting. If not, the Company shall, within five days, notify the shareholders of the class in the forms of a public announcement, of matters to be considered, the date and the place of the meeting. After such notification by public announcement, the Company may hold the class shareholders' meeting.

Restrictions on Rights of Controlling Shareholder

In addition to the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which our Company's shares are listed, a controlling shareholder shall not exercise his/her voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the shareholders of our Company:

(1) To remove the responsibilities of a Director or Supervisor to act honestly in the best interests of our Company;

(2) To approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person), in any guise, of our Company's assets, including (but not limited to) opportunities beneficial to our Company; or

(3) To approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person) of the individual rights of other shareholders, including (but not limited to) distribution rights and voting rights, save for the restructuring of our Company submitted to the general meeting for approval in accordance with the Articles of Association.

Procedures of Liquidation

Our Company will be dissolved for the following reasons:

(1) A resolution for dissolution is passed by shareholders at a general meeting;

(2) Dissolution is necessary due to a merger or division of our Company;

(3) Our Company's Business License is cancelled or it is ordered to shut down or to be dissolved according to the laws;

(4) Our Company is ordered to dissolve due to its violation of laws and regulations; and

(5) Where our Company encounters significant difficulties in business and management, continuous survival will be significantly detrimental to the interests of shareholders, and the difficulties may not be overcome through other means, shareholders who hold more than 10% of the shares carrying voting rights may request a People's Court to dissolve our Company.

Where our Company is to be dissolved pursuant to items (1), (3) or (5) of the preceding Article, the liquidation committee shall be formed within 15 days from the occurrence of dissolution to commence liquidation. The composition of such liquidation committee shall be determined by the Directors or the general meeting. If no liquidation committee is formed within the time limit, the creditors may petition to the People's Court to appoint relevant parties to form a liquidation committee to conduct the liquidation.

If the Board decides to liquidate our Company (except where our Company is liquidated after declaring bankruptcy), the Board shall state in the notice of the general meeting convened for this purpose that the Board has performed a comprehensive investigation of the status of our Company and believes that our Company is able to pay off all of our debts within 12 months of the start of liquidation.

Upon the passing of the resolution by shareholders in the general meeting for the liquidation of our Company, all duties and powers of the Board shall terminate immediately.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

(1) To categorise our Company's assets and prepare a balance sheet and an inventory of assets respectively;

(2) To notify the creditors or to publish public announcements;

(3) To dispose of and liquidate any pending businesses of our Company;

(4) To pay outstanding taxes and the taxes arising during the process of liquidation;

(5) To settle claims and debts;

(6) To deal with the surplus assets remaining after repayment by our Company of debts; and

(7) To represent our Company in any civil proceedings.

The liquidation committee shall notify all creditors within 10 days after its establishment and shall make announcements in newspapers within 60 days. The creditors shall declare their claims to the liquidation committee within 30 days upon the receipt of the notice or within 45 days after the date of announcement if no notice is received.

In claiming their rights, the creditors shall provide a statement and evidence with respect thereof. The liquidation committee shall register creditor's rights.

In the period of declaring claims, the liquidation committee may not pay any debts to creditors.

After it has categorised our Company's assets and after it has prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a general meeting or to the relevant competent authority for confirmation.

The properties of the Company shall be settled in the following sequence: payment of the liquidation expenses, wages, social insurance premiums and statutory compensation of the employees, payment of overdue taxes, and discharge of the corporate obligations. The Company's property remaining after the payment of the preceding fees shall be distributed by the Company to its shareholders by the shareholding and share classes they hold.

During liquidation, the Company shall not engage in new business activities.

The liquidation committee shall immediately apply to the people's court for a declaration of bankruptcy if it becomes aware, having liquidated our Company's assets and prepared a balance sheet and an inventory of assets, that our Company's assets are insufficient to repay its debts in full.

Upon our Company being declared bankrupt by a ruling of the People's Court, the liquidation committee shall transfer to the People's Court all matters arising out of the liquidation.

Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses received and made during the liquidation period and a financial report, which shall be verified by a Chinese certified public accountant and submitted to the general meeting or People's Court for confirmation. The liquidation committee shall, within 30 days after the confirmation by the general meeting or People's Court, submit the documents referred to in the preceding paragraph to the registration authority and apply for cancellation of registration of our Company, and publish a public announcement relating to the termination of our Company.

Other Important Provisions for Our Company or the Shareholders

(a) General Provisions

Business purpose of the Company: medicine is used for saving, rather than hurting people. The pharmaceutical workers assume extremely heavy responsibility.

Business scope of the Company is the research, development, production and sales of bulk pharmaceutical chemicals, generic drugs, biological medicine, first generic drugs, and new drugs in PRC and abroad (No business activities of these items legally subject to the approval can be performed until obtaining the said approval from relevant departments).

All the shares shall be issued in the form of stocks with a par value denominated in RMB1 Yuan.

The Company shall, at all times, have ordinary shares. The Company may, upon the approval of the departments as authorized by the State Council, have other classes of shares if necessary.

The Company shall follow the principles of transparency, fairness and equality when issuing shares. Each share of the same class shall have the same rights and benefits. Stocks of the same class issued at the same time shall be equal in price and shall be subject to the same conditions.

Upon the approval of the securities regulatory authority under the State Council, the Company may issue stocks to domestic and overseas investors. The Board of Directors may make separate arrangements for the initial public offerings (IPO). The Company shall fully subscribe respectively the overseas-listed foreign shares and domestic shares within the planned number of total shares in the issue scheme at one time. In case of failure of full subscription at one time, the shares may be issued in installments upon the approval from the securities regulatory authority under the State Council.

(b) Increase or Decrease of Stock Capital

The Company may, based on its operating and development needs and in accordance with laws, rules and regulations, increase its registered stock capital in the following ways, subject to resolution adopted by the general meeting:

(1) To offer new shares to unspecified investors;

(2) To place new shares with existing shareholders;

(3) To allot bonus shares to its existing shareholders;

(4) To issue new shares to particular investors;

(5) To convert the reserves into share capital; or

(6) Any other ways permitted by the laws, administrative regulations and relevant regulatory authorities.

Our Company's increase of capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations of the State.

Pursuant to the Articles of Association, the Company may reduce its registered capital. When our Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets.

The Company shall notify its creditors within 10 days after the date of resolution on reducing the registered capital and announce it on a newspaper within 30 days. Creditors have the right to request the Company to repay its debts or to provide relevant debt settling guarantee within 30 days after receiving the notice or within 45 days after the date of announcement if no such notice has been received.

The reduction of the Company's registered capital shall be conducted in accordance with the procedures stipulated by the PRC Company Law and the Articles of Association.

(c) Shares

Share certificates of the Company shall be in a registered form. In addition to the items specified by the PRC Company Law, the share certificates of the Company shall state clearly the other items required by the local stock exchange where the shares of the Company are listed.

During the period of listing H shares on the SEHK, the Company must, at any time, ensure that all title documents of all of its securities listed on SEHK (including H shares) contain the following statements:

- Share purchasers, the Company and every shareholder shall observe and comply with the PRC Company Law, the Special Provisions, the Articles of Association, and other relevant laws and administrative regulations;

- Share purchasers, and the Company, every shareholder, Director, Supervisor, General Manager, and other senior management officers agree, and the Company acting on behalf of the Company itself, and every Director, Supervisor, General Manager and other senior management officers, also agree to every shareholder, that any dispute or claim rights relating to the affairs of the Company and arising as a result of the rights or obligations provided for in this Articles of Association, the PRC Company Law, or other relevant laws or administrative regulations, shall be referred to arbitration in accordance with the Articles of Association. The submission of any arbitration shall be deemed as authorizing arbitral tribunal to conduct a public hearing and announce its decision. The arbitration shall be final;

- Share purchasers, and the Company and every shareholder, agree that the Company's shares can be freely transferable by holders;

- The share purchasers authorize the Company to enter into a contract with every Director, General Manager and other senior management officers in their names, and ensure such Director, General Manager and other senior management officers to undertake to observe and fulfill its responsibility to shareholders in accordance with the Articles of Association.

The Company must instruct and facilitate its share registrar to refuse the registration of any subscription, purchase or transfer of any individual holder, unless and until such individual holder submits the signed complete table of such share to the share registrar, and the table must include the above statement.

The share certificates of the Company can be transferred, gifted, inherited and pledged according to laws, administrative regulations, and the Articles of Association. The assignment and transfer of the share certificate must be registered at the registration entity entrusted by the Company.

The share certificates shall be signed by the Chairman of the Board. In case other senior management officers of the Company are required to sign under the requirements of the local stock exchange where the shares of the Company are listed, the share certificates shall also be signed by such members. The share certificates shall be effective upon the affixture of the Company's seal or the affixture of the seal in printed form. Authorization from the Board of Directors shall be obtained for the affixture of the Company's seal, regardless of the printed form, on the share certificates. The signature of the Chairman of the Board of the Company or other relevant senior management officers could also be made in printed form.

(d) Shareholders

When our Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets.

A shareholder enjoys rights, and is subject to obligations, according to the class and number of shares he/she holds. Holders of the same class of shares enjoy the same rights and subject to the same obligations. Each class of shareholders in the Company shall have equal rights in any distribution of dividends or otherwise.

Our Company shall not freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to our Company.

Where two or more persons are registered as the joint shareholders of any share, they shall be deemed as the joint owners of such shares, and shall be bound by the following restrictions:

- The Company shall not register more than four persons as the joint shareholders of any share;

- All joint shareholders of any shares shall be jointly and severally liable for the payment of all fees payable for the relevant shares;

- If one of those joint shareholders dies, only the alive shareholders among them shall be deemed by the Company as the owners of relevant shares, but the Board of Directors shall be entitled to request for the alive shareholders to provide the death certificate it thinks fit for the purpose of amending the register of members; and

- For joint shareholders of any shares, only the joint shareholder named first in the register of members has the right to receive the share certificate of the relevant shares and the notice from the Company as well as attending the general meeting of the Company or exercising the voting rights of the relevant shares. Any notice delivered to the aforesaid person shall be deemed to be delivered to all joint shareholders of the relevant shares.

The holders of Company's ordinary shares shall assume the following obligations:

- To abide by laws, administrative regulations, and the Articles of Association;

- To pay subscription funds based on the number of shares subscribed and the method of subscription;

- Unless otherwise stipulated by laws and administrative regulations, not to withdraw their share capital after the Company being approved for incorporation;

- To be accountable for the Company to the extent of his/her/its shareholding; and

- Other obligations imposed by laws, administrative regulations, and the Articles of Association.

Other than obligated by laws, administrative regulations or the listing rules of the stock exchange on which the Company's shares are listed, the controlling shareholders, when exercising his rights as a shareholder, shall not make decisions that would impair the interest of all or part of the shareholders on the following matters by means of voting:

- To release the obligation of Directors and Supervisors to act honestly in the best interest of the Company;

- To allow Directors and Supervisors for the interest of themselves or others, to expropriate the Company's property, including (without limitation) opportunities advantageous to the Company; or

- To allow Directors and Supervisors for the interest of themselves or others, to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save pursuant to a restructuring of the Company submitted to the general meeting for approval in accordance with the Articles of Association.

(e) Duties and Powers of the Board of Directors and Proceedings of Board Meeting

The Company shall have a Board of Directors consisting of nine Directors, with one Chairman of the Board and several deputy chairmen. The Chairman of the Board and Deputy Chairman of the Board shall be elected and removed by more than half of all the Directors. The Chairman of the Board and Deputy Chairman of the Board shall serve a term of three years and may serve consecutive terms if re-elected.

The Board shall exercise the following functions and powers:

- To convene the general meetings, submit relevant matters to the general meetings for passing, and report on its work to the shareholders;
- To implement the resolution of the general meeting;
- To decide on the business plans and investment schemes of the Company;
- To formulate our Company's proposed annual financial budget and final accounts;
- To formulate our Company's profit distribution plan and plan for making up for losses;
- To formulate proposals for the increase or reduction of our Company's registered capital, and plans for the issue of corporate bonds or other securities and the listing plan;
- To draw up plans for material assets acquisition or disposal, purchase of our Company's shares, or merger, demerger, dissolution or change of the form of our Company;
- To decide on the establishment of our Company's internal management organization;
- To appoint or remove our Company's general manager and secretary of the Board; to appoint or remove other senior management officers pursuant to the general manager's nominations, and to determine the abovementioned matters relating to the remuneration, incentives and punishments of the senior management officers;
- To formulate the Company's basic management system;

- To formulate proposals for any amendment to the Articles of Association;
- To decide on the matters such as merger, division, reorganization or dissolution of our Company's wholly-owned subsidiaries and subsidiaries;
- To change the use of the placement to the extent beyond the decision of the general meeting as required by laws and regulations;
- To decide on the establishment of special committees under the Board and to appoint or remove its person-in-charge;
- To propose at the general meetings a resolution in respect of candidates for Independent Directors and replacement of Independent Directors;
- To propose at the general meetings for the appointment, renewal or remove of accountants' firm conducting auditing for our Company;
- To hear the work report and inspect the work of the general manager;
- To manage information disclosure of our Company;
- To formulate the equity incentive plan;
- Save as otherwise required to be decided by the general meetings under laws and regulations and the Articles of Association, the Board exercises its power to make decisions on external investments (including capital increase and equity transfer of the invested enterprises), financing, risk management and trust management, external guarantees, etc.;
- To establish and review our Company's corporate governance policies and codes;
- To review and supervise the training and sustained professional development of our Company's Directors, Supervisors and senior management officers;
- To review and supervise our Company's policies and codes in connection with compliance with laws and regulatory requirements;
- To establish, review and supervise the codes of conduct and compliance handbook (if any) applicable to Directors and employees;
- To review our Company's compliance with the Code on Corporate Governance Practices and the disclosures made in the Corporate Governance Report;
- To decide on other major affairs of our Company, save for matters to be resolved at the general meetings as required by the PRC Company Law and the Articles of Association;

- To exercise other functions and powers as granted by the Articles of Association or the general meetings of our Company; and

- To conduct other matters as required by PRC laws and regulations.

Related Directors shall not vote when the Board Meeting considers connected transaction.

Meetings of the Board of Directors shall be held at least 4 times each year. Such meetings shall be convened by the Chairman of the Board.

In case of any of the followings, the Chairman of the Board shall convene an interim meeting of the Board of Directors within 10 days:

- When proposed by shareholders representing one tenth of voting rights or more;

- When proposed by one third of Directors or more;

- When the Chairman of the Board deems it necessary;

- When proposed by two or more Independent Directors;

- When proposed by the Supervisory Committee; or

- When the General Manager proposes the convening of the interim meetings of the Board of Directors.

To convene a regular or interim meeting of the Board of Directors, a written notice shall be sent to all Directors and Supervisors 14 days prior to the date of a regular meeting or 3 days prior to an interim meeting. By written consent of all Directors present at the meeting, the above time limit may not be observed. The office or other department designated by the Board of Directors is responsible for serving the written meeting notice to all Directors and Supervisors by direct service, fax, e-mail or other means. If an interim meeting of the Board of Directors needs to be held quickly due to urgent circumstances, a meeting notice may be given at any time by telephone or other oral methods, provided that the convener makes an explanation thereof at the meeting.

Meetings of the Board of Directors may be held only if more than one half of the Directors are present. Each Director shall have one vote. Unless specified otherwise in the laws, administrative regulations or the Articles of Association, resolutions of the Board must be passed by more than half of all the Directors.

Directors shall not vote the resolution on the approval of contract, arrangement or other suggestions that they or their associates maintain interests inside (which shall not be included in the quorum of the relevant meetings). Even though such Directors claim to vote, the votes will not be counted, unless otherwise specified in laws, administrative regulations, relevant regulatory regulations or rules.

If a Director is unable to attend a Board Meeting, he/she may appoint another Director by a written power of attorney to attend on his/her behalf. Such a power of attorney shall specify the scope of authorization.

The Board of Directors shall keep minutes of its decision on the matters considered at the meetings. The Directors attending the meeting and the person taking the minutes shall sign in the minutes. The Directors shall be liable for the resolutions of the Board of Directors. If any resolution of the Board of Directors breaches laws, administrative regulations or the Articles of Association, thereby causing the Company to sustain a material loss, the Directors who took part in the resolution shall be liable to the Company for damages. However, those Directors who are proved to have expressed their opposition to the voting and such opposition is recorded in the minutes of the meeting may be exempt from liability.

(f) The Chairman

The Chairman of the Board is entitled to exercise the following functions and powers:

- To preside over shareholder's general meetings, to convene and preside over meetings of the Board of Directors;
- To procure and inspect the implementation of the resolutions of the Board of Directors;
- To sign the share certificates, corporate bonds and other negotiable securities issued by the Company;
- To sign important documents of the Board of Directors and other documents to be signed by the legal representative of the Company, and to exercise the functions and powers of the legal representative;
- To organize and establish various systems and harmonize the operation of the Board of Directors;
- To hear the regular or irregular work reports of the senior management officers of the Company, and give guidance on the implementation of the resolutions of the Board of Directors;
- To nominate the list of the secretary candidates of the Board of Directors; and
- Other functions and powers conferred by the laws, regulations or the Articles of Association, and the Board of Directors.

(g) Independent Directors

The Company shall have Independent Directors. The Board of Directors consists of nine Directors, including three Independent Directors.

Independent Directors may report the relevant state of affairs directly to the general meeting, the securities regulatory authorities of the State Council and other relevant departments.

(h) Special Committees of the Board of Directors

The Board of Directors shall set special committees such as Nomination Committee, Remuneration and Evaluation Committee, and Audit Committee in accordance with the requirements of relevant laws, regulations and the Listing Rules. The manning, scope of functions and powers, and rules of procedure for the special committees under the Board of Directors shall be separately agreed by the Board of Directors. All of the special committees are the special operating mechanism under the Board of Directors and shall provide suggestions or advisory opinions for the material decision of the Board of Directors, or exercise the decision-making power on the authorization matters authorized by the Board of Directors.

(i) Secretary to the Board

The Board of Directors shall appoint one secretary to the Board, who shall be a member of the senior management officers of the Company.

The secretary to the Board shall be a natural person with necessary professional knowledge and experience. Such secretary shall be nominated by the Chairman of the Board, and engaged or dismissed by the Board of Directors.

The main responsibilities of the secretary to the Board shall be set forth below:

- To ensure the completeness of the Company's organizational documents and records; to save and manage the materials of shareholders; to assist the Directors with their handling of the day-to-day business of the Board of Directors, to provide Directors, remind the Directors of, and ensure that the Directors are aware of the laws, regulations, policies and requirements in respect of operation of companies stipulated by the domestic and foreign regulators, and to assist the Directors and the general manager in their compliance with domestic and foreign laws, regulations, the Articles of Association and other relevant regulations during the exercise of their functions and powers;

- To organize and prepare the meetings of the Board of Directors and the shareholder's general meeting, prepare the meeting materials, arrange relevant meeting affairs, keep the minutes of the meeting, and ensure the correctness of the records; to duly keep and take care of the meeting documents and records, and keep abreast of the implementation of the resolutions of the Board of Directors; to report the important issues arising from the implementation to the Board of Directors and offer proposals;

- To ensure that the material matters on which the Board of Directors of the Company has reached decisions are carried out in strict accordance with the prescribed procedure. At the request of the Board of Directors, to participate in and arrange for advice and analysis of matters on which the Board of Directors is to make decisions, and put forward pertinent opinions and recommendations. To handle, upon appointment, the day-to-day work of the Board of Directors and its relevant committees;

- To be responsible, as the contact person between the Company and the securities regulator, for arranging for the preparation and timely delivery of the documents requested by the regulator and to be responsible for accepting the relevant tasks assigned by the regulator and arranging for their completion;

- To be responsible for coordinating and arranging information disclosures of the Company and the establishment of a sound information disclosure system, to attend all Company meetings related to information disclosure and to be aware at all times of the Company's material business decisions and relevant information and data;

- To be responsible for the work associated with maintaining the confidentiality of the Company's price sensitive information and to formulate a practical and effective confidentiality system and measures; to take the necessary remedial measures for the disclosure of the price sensitive information of the Company for any reasons, to timely explain and clarify the reasons, and to inform the regulator of the place where the Company shares are listed and CSRC;

- To be responsible for coordinating the reception of visitors and maintaining communication with the media, to be responsible for coordinating responses to questions posed by the public, to handle the relation with intermediaries, regulators, and media, and to arrange for the reporting of relevant matters to the CSRC;

- To ensure that the Company's register of members is duly made and kept and to ensure that persons with right to receive relevant Company records and documents receive such records and documents in a timely manner;

- To assist the Directors and the general manager in their strict compliance with domestic and foreign laws, regulations, the Articles of Association and other relevant regulations during the exercise of their functions and powers. To be obligated to caution the Company about the violation of relevant regulations by the resolution adopted or coming to be adopted by it, and has the right to faithfully report the above to the CSRC and other regulators;

- To coordinate the provision of information and data to the Supervisory Committee of the Company and other review organizations necessary for their performance of monitoring functions, and to assist in the investigations of the performance by the financial manager, Directors and the general manager of the Company; and

- To perform other functions and powers granted by the Board of Directors and other functions and powers required by the stock exchange of the place where the Company shares are listed.

Directors or senior management officers of the Company may concurrently hold the office of secretary to the Board, but such person must have sufficient time and energy to assume duties of the secretary to the Board. The accountants of the accounting firm engaged by the Company and the management officers of the Company as the controlling shareholders shall not concurrently hold the office of secretary to the Board.

If the office of secretary to the Board is held by a Director of the Company and a certain act is to be done by a Director and the secretary to the Board separately, the person who concurrently holds the offices of Director and secretary to the Board may not perform the act in both capacities.

(j) General Manager and Other Senior Management Officers

The Company shall have one general manager, who is engaged or dismissed by the Board of Directors. The Company shall have one Chief Financial Officer (CFO) and several vice general managers, who are nominated by the general manager and engaged or dismissed by the Board of Directors. A Director may concurrently serve as general manager or other senior management officers.

General manager shall be responsible to the Board of Directors and exercise the following functions and powers:

- To be in charge of the production, operation and management of the Company, and report to the Board of Directors;

- To organize and implement the resolutions of the Board of Directors, annual business plans and investment schemes of the Company;

- To prepare the annual financial budget plan, and final account plan of the Company, and make recommendations to the Board of Directors;

- To prepare the basic management system and plan for establishment of the Company's internal management organization;

- To formulate specific rules of the Company;

- To request the Board of Directors to engage or dismiss other senior management officers;

- To engage or dismiss the responsible managers except those who shall be engaged or dismissed by the Board of Directors;

- To propose the holding of the interim meetings of the Board of Directors in case of any emergency;

- To decide on the investment, financing, contract, transaction and other matters within the scope of authorization granted by the Board of Directors; and

- Other functions and powers granted by the Articles of Association and the Board of Directors of the Company.

In the exercise of the functions and powers, the General Manager shall perform his/her fiduciary duty and obligation of diligence in accordance with laws, administrative regulations, and the Articles of Association.

(k) Supervisors and the Supervisory Committee

The Company shall have a Supervisory Committee. The Supervisory Committee shall exercise the supervision functions in accordance with the provisions of laws, administrative regulations and the Articles of Association of the Company.

Directors and senior management officers of the Company shall not concurrently serve as Supervisors.

The Supervisors shall faithfully perform the supervisory duty in accordance with the provisions of laws, administrative regulations and the Articles of Association.

The Supervisor may be present at the meetings of the Board of Directors.

The Supervisory Committee shall consist of three Supervisors, and one of them shall act as the chairman. Supervisors shall serve a term of three years. At the expiration of terms, Supervisors may continue to serve as such if reelected. The appointment and dismissal of the Chairman of the Board of Directors shall be subject to the affirmative vote of at least two-thirds (inclusive) of all Supervisors.

The Supervisory Committee shall include two Supervisors who represent the shareholders and one Supervisor who represents the employees. The Supervisors who represent the shareholders shall be elected or removed from office by the general meeting, and the Supervisor who represents the employees shall be democratically elected or removed from office by the workers congress, staff meeting or other forms.

The Supervisory Committee shall be responsible to the general meeting and exercise the following functions and powers:

- To supervise Directors, and senior management officers in the performance of their duties and to propose the removal of Directors or senior management officers who violate laws, administrative regulations, the Articles of Association or the resolutions of the general meeting;

- To request the rectification of the acts of Directors and senior management officers detrimental to the Company's interest;
- To check the Company's financial condition;
- To propose the convening of a shareholders' extraordinary general meetings, and in the event that the Board of Directors fails to perform its duty of convening and presiding over a general meeting in accordance with the PRC Company Law, to convene and preside over such meeting;
- To submit motions to the general meeting;
- To propose the convening of the interim meeting of the Board of Directors;
- To sue Directors and senior management officers in accordance with the provisions set forth in Article 151 of the PRC Company Law; and
- Other functions and powers prescribed by laws, administrative regulations, and the Articles of Association.

The meeting of the Supervisory Committee shall be held at least once every six months, which shall be convened and presided over by the Chairman of the Supervisory Committee. If the Chairman of the Supervisory Committee is unable or fails to perform such duties, a Supervisor elected jointly by no less than half of the Supervisors shall convene and preside over the meeting. Any Supervisors may propose the holding of interim meeting of the Supervisory Committee. To convene a meeting of the Board of Directors, a written notice shall be sent to all Supervisors 10 days prior to the date of a regular meeting or 2 days prior to an interim meeting by direct service, fax, e-mail or other means. By written consent of all Supervisors present at the meeting, the above time limit may not apply. If an interim meeting of the Supervisory Committee needs to be held quickly due to urgent circumstances, a meeting notice may be given at any time by telephone or other oral method, but the convener shall make an explanation thereof at the meeting.

In the event of any unexpected operations of the Company identified, an investigation by the Supervisory Committee may be conducted, and if necessary, the professional organizations such as law firms and accounting firms may be engaged for assistance. All the reasonable expenses incurred shall be borne by the Company.

The resolutions of the Supervisory Committee shall be adopted only by two-thirds or more of the affirmative votes.

The Supervisory Committee shall keep minutes of its decision made at the meetings. The Supervisors attending the meeting and the person taking the minutes shall sign in the minutes.

Supervisors shall be entitled to request for some explanatory notices to their statements at the meeting on the record. The minutes of the meeting of the Supervisory Committee shall be kept in the premise of the Company.

(l) Qualifications and Obligations of the Directors, Supervisors, General Manager and Other Senior Management Officers

A person may not serve as a Director, Supervisor, general manager or any other senior management officers of the Company in any of the following circumstances:

(1) Anyone who has no civil capacity or has limited civil capacity;

(2) Anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;

(3) Anyone who has served as a Director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of the company or enterprise, and is within 3 years of the date of completion of bankruptcy and liquidation of the company or enterprise;

(4) Anyone who has served as the legal representative of a company or enterprise whose business license was revoked or which was ordered shut down due to a violation of law, was personally liable, and is within 3 years of the date on which the business license of the company or enterprise was revoked;

(5) Anyone who owes a huge amount of overdue debt;

(6) Anyone who is under criminal investigation by the judicial organization for violating the criminal law and whose case is pending;

(7) Anyone who cannot serve as management of a company under laws and administrative rules;

(8) A non-natural person;

(9) Anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made; or

(10) Other circumstances as provided by laws and regulations in the place where the shares of the Company are listed.

The validity of an act of a Director, General Manager or other senior management officers on behalf of the Company shall not vis-à-vis a bona fide third party, be affected by any non-compliance in his/her holding of such office, election or qualifications.

In addition to obligations imposed by laws, administrative regulations or the listing rules of the stock exchanges on which shares of the Company are listed, the Company's Directors, Supervisors, General Manager or other senior management officers shall owe each shareholder the following obligations in the exercise of the functions and powers granted to them by the Company:

- Not to cause the Company to exceed the scope of business stipulated in its business license;
- To act honestly in the best interests of the Company;
- Not to expropriate in any guise the Company's property, including (but not limited to) any opportunities that are advantageous to the Company; and
- Not to deprive shareholders of their individual rights or interests, including (but not limited to) rights to distribution and voting rights, unless pursuant to a restructuring of the Company submitted to the general meeting for approval in accordance with the Articles of Association of the Company.

Directors, Supervisors, or other senior management officers of the Company are obliged, in the exercise of their rights or performance of their obligations, to perform their acts with care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

The Directors, Supervisors and other senior management officers must, in the performance of their duties and responsibilities, abide by the fiduciary principle and shall not put themselves in a position where their personal interests and their duties may conflict. This principle shall include but not limited to the fulfillment of the following obligations:

- To act honestly in the best interests of the Company;
- To exercise powers within the scope of their functions and powers and not to exceed such powers;
- To personally exercise the discretion vested in him/her and not allow himself/herself to be manipulated by another person, and unless and to the extent permitted by laws, administrative regulations or with the informed consent of the general meeting, not to delegate the exercise of this discretion to others;
- To treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- Not to enter into any contract, transaction or arrangement with the Company, unless otherwise provided in the Articles of Association or with the informed consent of the general meeting;

- Not to use Company's property for his/her own benefit in any way without the informed consent of the general meeting;

- Not to exploit his/her positions to accept bribes or other forms of illegal income, or to illegally appropriate Company's property in any way, including (but not limited) to any opportunities advantageous to the Company;

- Not to accept commissions in connection with the Company transactions without the informed consent of the general meeting;

- To abide by the Articles of Association, to faithfully perform his/her duties, to protect the interests of the Company, and not to exploit his/her position and powers in the Company to seek personal gains;

- Not to compete with the Company in any forms without the informed consent of the general meeting;

- Not to misappropriate the Company funds, not to open accounts in his/her own name or other names for the deposit of the Company's assets or funds; not to, in breach of the Articles of Association, lend Company funds to others, and not to use Company property as security for the debts of a shareholder of the Company or other individuals without the consent of the general meeting or Board of Directors; and

- Not to disclose the confidential information related to the Company that was acquired by him/her in the course of and during his/her tenure without the informed consent of the general meeting; not to use such information other than in furtherance of the interests of the Company; however, such information may be disclosed to a court or other competent authorities if:

  (1) Disclosure is prescribed by the law;

  (2) The public interests require the disclosure; or

  (3) The interests of such Director, Supervisor, General Manager and other senior officers of the Company require the disclosure.

The fiduciary duties of the Company's Directors, Supervisors, General Manager and other senior management officers do not necessarily cease with the termination of their tenure. Their confidentiality obligation in connection with the Company's trade secrets shall survive the termination of their tenure. Other duties may continue for such a period as fairness, depending on the time lapse between the termination and the occurrence of matter, as well as the circumstances and conditions under which the relationship with the Company are terminated.

Where a Director, a Supervisor, or other senior management officers of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement concluded or planned by the Company (other than his/her contract of service with the

Company), he/she shall disclose the nature and extent of his/her interest to the Board of Directors at the earliest opportunity, whether or not the contract, transaction or arrangement is otherwise subject to the approval of the Board of Directors.

The Company may not pay taxes for its Directors, Supervisors, or other senior management officers in any manner.

The Company shall enter into a contract in writing with each Director, Supervisor or other senior management officers.

(m) Merger and Split-up

In case of merger or split-up of the Company, then the Board of Directors shall make a proposal and the related approval shall be conducted after such proposal is approved by the general meeting of shareholders in accordance with the Articles of Associations. Shareholder who dissents program of merger or split-up may require the Company or shareholder who agrees such program to acquire its shares at a fair price. Resolutions about merger or split-up of the Company must be kept as special documents for the shareholders' inspections.

Merger of the Company may take the form of merger by amalgamation or merger by new establishment. Parties to merger shall enter into merger agreement and prepare balance sheet and checklists of property when the Company conducts merger. The Company shall, within 10 days after the resolution of merger is made, inform the creditors and make a public announcement on a newspaper within 30 days. To carry out a merger, the credits and debts of the Company involved shall be succeeded by the company that survives the merger or by the newly established company.

To split the Company, balance sheets and checklists of properties shall be worked out. The Company shall, within 10 days after the resolution of split-up is made, inform the creditors and make a public announcement on a newspaper within 30 days. The post-split companies shall bear several and joint liabilities for the debts of the Company before its split unless it is otherwise prescribed in a written agreement reached by the Company and the creditors before the split regarding the debt pay-off.

Where, in the process of the Company's merger or split, any of the registered items is changed, the Company shall go through modification registration with the company registration authority. When the Company is dissolved, it shall be deregistered according to law. If a new company is established, it shall go through the procedures for company establishment according to law.

(n) Reserve

When distributing its after-tax profits for a given year, the Company shall allocate 10% of profits to its statutory common reserve. The Company need not allocate further amount to its statutory common reserve once the aggregate amount of such reserve is over 50% of its registered capital. If the Company's statutory common reserve is insufficient to make up losses from previous years, the Company shall recover such losses with the profits of the current year before making the allocation to its statutory common reserve in accordance with the preceding paragraph.

After making the allocation from its after-tax profits to its statutory common reserve, the Company may, subject to a resolution of the general meeting, allocate the discretionary common reserve from the after-tax profits.

After recovering the losses and making allocations to its statutory common reserves, the remaining profits of the Company shall be distributed in proportion to the shareholdings of its shareholders according to the resolutions of the general meeting.

If the general meeting breaches the provisions of the preceding paragraph by distributing profits to shareholders before the Company has made up its losses and made allocations to the statutory common reserves, the shareholders must return to the Company the profits that were distributed in breach of the said provision.

Shares of the Company that are held by the Company itself shall not participate in the distribution of profits.

The capital reserves shall include the following amounts:

- Premiums received from the issue of shares above the par value; and
- Other revenue required by the competent financial departments of the State Council to be so included.

The reserves of the Company may be used to recover the losses of the Company, to expand the production and operation of the Company, or to be converted into the increased capital of the Company. Nevertheless, no capital reserves may be used to make up the losses of the Company.

When converting the funds in the statutory common reserve into capital, the funds remaining in such reserve will not be less than 25% of the Company's registered capital before the conversion.

(o) Notices and Announcements

The notices of the Company shall be given by the following means:

- By personal delivery;
- By mail;
- By fax or email;
- By way of a publication on the Company's website and the website designated by the SEHK, on the premise of the Company in compliance with the laws, administrative regulations, and the listing rules of the stock exchange of the place where the shares of the Company are listed;

- By public announcement;

- Other means agreed in advance by the Company or notice recipient or accepted by the notice recipient upon receipt of such notice; and

- Other means recognized by the relevant regulators of the place where the shares of the Company are listed or specified in the Articles of Association.

If the listing rules of the stock exchange of the place where the shares of the Company are listed require the Company to send, mail, distribute, issue, publish or otherwise provide relevant Company documents in both English and Chinese versions, the Company may, to the extent permitted by laws and regulations and in accordance with applicable laws and regulations, (if a shareholder has so indicated) only send him or her the English versions or Chinese versions of documents if the Company has made sufficient arrangements to ascertain whether its shareholders wish to only receive English versions or Chinese versions of documents.

(p) Settlement of Disputes

The Company shall comply with the following rules for dispute resolution:

- Any dispute or claim related to affairs of the Company and arising between the holders of overseas-listed foreign shares and the Company, or between holders of overseas-listed foreign shares and Directors, Supervisors or other senior management officers of the Company, or between holders of overseas-listed foreign shares and holders of domestic shares, and arising as a result of the rights or obligations provided in this Articles of Association, the PRC Company Law or other relevant laws, administrative regulations and regulatory documents, shall be submitted to arbitration by parties involved.

  When a dispute or claim as described above is submitted to arbitration, the claim or dispute shall be submitted in whole. All persons (being the Company or shareholders, Directors, Supervisors, and other senior management officers of the Company) that have a cause of action due to the same facts or whose participation is necessary for the resolution of such dispute or claim shall be subject to arbitration.

  Disputes in respect of the identification of shareholders and disputes in relation to the register of shareholders may not be resolved by arbitration.

- A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Center in accordance with its securities arbitration rules. After the claimant has submitted the dispute or claim to arbitration, the other party must submit to the arbitral institution elected by the claimant.

If the claimant opts for arbitration by the Hong Kong International Arbitration Center, either party may request arbitration to be conducted in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

- If any disputes or claim of rights as set out in item (i) above are settled by means of arbitration, the Laws of the PRC (excluding Hong Kong, Macao and Taiwan) shall apply, unless otherwise provide by the laws and administration regulations.

- The award of the arbitral institution shall be final and conclusive and binding on parties thereto.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation

Our Company was established in the PRC on 11 May 2015 as a joint stock limited company under the laws of the PRC, converting from our predecessor Yichang Changjiang Pharmaceutical Co., Ltd., a foreign-invested company established in the PRC on 8 August 2001.

Our Company has established a place of business in Hong Kong at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 16 July 2015. Ms. NG Wing Shan, the joint company secretary of our Company, has been appointed as our agent for the acceptance of service of process in Hong Kong whose correspondence address is 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V. A summary of certain relevant aspects of the laws and regulations of the PRC is set out in Appendix IV.

2. Changes in Share Capital

At our establishment, our initial registered capital was RMB300,000,000, which was divided into 300,000,000 issued Shares of RMB1.00 each. Out of the 300,000,000 Shares, 225,000,000 Shares were held by our Parent Company and 75,000,000 Shares were held by North & South Brother (HK). For further details, please refer to the section headed "History, Reorganisation and Corporate Structure – History and Business Development" in this prospectus.

Changes in the share capital of our Company subsequent to our establishment as a joint stock limited company are set out below:

(a) On 29 May 2015, at the general meeting of our Shareholders, a resolution was passed to approve the issuance of an additional 60,527,450 Shares, after completion of which the share capital of the Company increased to 360,527,450 Shares. Out of the 60,527,450 Shares, 23,847,914 Shares were issued to Ample Market Investment Limited, 11,959,765 Shares were issued to Champion Zone Investment Limited, 8,193,843 Shares were issued to M.R. Pharma (H.K.) Limited, 7,161,536 Shares were issued to Splendid Healthcare Limited, 5,852,745 Shares were issued to Watertower Investment Limited and 3,511,647 Shares were issued to Wealth Strategy Holding limited.

(b) Assuming that the Global Offering has become unconditional and the Offer Shares have been issued, our share capital upon the completion of the Global Offering will be 450,659,450 Shares, being 225,659,450 H Shares of RMB1.00 each and 225,000,000 Domestic Shares of RMB1.00 each (assuming the Over-allotment Option is not exercised).

Save as disclosed above, there has been no alteration in our share capital since our establishment as a joint stock limited company.

3. Resolutions of our Shareholders

Pursuant to the general meeting held on 8 August 2015, our Shareholders resolved that, among other things:

(a) the Global Offering and the grant of Over-allotment Option;

(b) subject to the completion of the Global Offering, the adoption of the Articles of Association which shall become effective on the Listing Date;

(c) the conversion of unlisted foreign shares into H Shares to be listed on the Stock Exchange; and

(d) authorisation of the Board and the delegation by our Board to each and every Director to handle all matters that are necessary for the issuing and listing of our Shares.

4. Our Subsidiary

There has been no alteration in the share capital of our subsidiary within the two years preceding the date of this prospectus.

5. Restriction on Share Repurchase

Please refer to the section headed "Appendix IV – Summary of Principal Legal and Regulatory Provisions – The PRC Company Law, Special Regulations and Mandatory Provisions – Repurchase of Shares" in this prospectus for details.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus that are or may be material:

(a) the equity transfer agreement dated 12 September 2014 entered into between Yichang Changjiang Pharmaceutical Co., Ltd. (the predecessor of our Company) and our Parent Company pursuant to which Yichang Changjiang Pharmaceutical Co., Ltd. transferred the entire equity interest in Ruyuan HEC Pharma to our Parent Company for a consideration of RMB100 million;

(b) the Pre-IPO Investment Agreement;

(c) the trademark licensing agreement dated 6 December 2015 entered into among our Company, our Parent Company and Shenzhen HEC Industrial, pursuant to which our Parent Company and Shenzhen HEC Industrial agreed to grant to us a non-exclusive license to use certain trademarks owned by them at nil consideration;

(d) the non-competition agreement dated 6 December 2015 entered into among our Company and our Controlling Shareholders, pursuant to which each of the Controlling Shareholders agreed not to, and to procure its subsidiaries (other than our Group) not to, compete with us in our businesses;

(e) the cornerstone investment agreement dated 9 December 2015 entered into among our Company, China Southern Dragon Dynamic Fund (on behalf of China New Balance Opportunity Fund) and CICC, a summary of which is set out in the section headed "Our Cornerstone Investors";

(f) the cornerstone investment agreement dated 10 December 2015 entered into among our Company, Ally Bridge LB – Sunshine Limited and CICC, a summary of which is set out in the section headed "Our Cornerstone Investors";

(g) the cornerstone investment agreement dated 10 December 2015 entered into among our Company, Pinpoint Asset Management Ltd and CICC, a summary of which is set out in the section headed "Our Cornerstone Investors";

(h) the cornerstone investment agreement dated 11 December 2015 entered into among our Company, Sanxing Electric (Hong Kong) Company Limited, ABCI Capital Limited and CICC, a summary of which is set out in the section headed "Our Cornerstone Investors"; and

(i) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights

As at the Latest Practicable Date, we have registered or have applied for the registration of the following material intellectual property rights.

Trademarks

As at the Latest Practicable Date, we have registered the following material trademarks in the PRC:

No.	Proprietor	Trademark	Place of Application	Application No.	Class	Date Obtained	Expiry Date
1.	the Company	欧美宁	the PRC	3660047	5	2005.12.07	2015.12.06
2.	the Company	弗仑特	the PRC	4393177	5	2008.02.07	2018.02.06
3.	the Company	迪安尼	the PRC	4393178	5	2008.02.07	2018.02.06
4.	the Company	利威士	the PRC	5476876	5	2009.09.28	2019.09.27
5.	the Company	军科奥韦	the PRC	5058409	5	2009.12.21	2019.12.20
6.	the Company	阳之通	the PRC	5003962	5	2009.04.21	2019.04.20
7.	the Company	文尼亚	the PRC	4628554	5	2008.09.14	2018.09.13
8.	the Company	诺韦优	the PRC	5476877	5	2009.09.28	2019.09.27
9.	the Company	安斯希	the PRC	5476882	5	2009.09.28	2019.09.27
10.	the Company	斯根凯尔	the PRC	5476878	5	2009.09.28	2019.09.27

No.	Proprietor	Trademark	Place of Application	Application No.	Class	Date Obtained	Expiry Date
11.	the Company	欧美利	the PRC	4431051	5	2008.03.28	2018.03.27
12.	the Company	善力杰	the PRC	4431050	5	2008.03.28	2018.03.27
13.	the Company	兰其兰	the PRC	4431046	5	2008.03.28	2018.03.27
14.	the Company	阳之喜	the PRC	5003963	5	2009.04.21	2019.04.20
15.	the Company	阳之隆	the PRC	5003959	5	2009.04.21	2019.04.20
16.	the Company	康 方	the PRC	4730378	5	2008.12.28	2018.12.27
17.	the Company	商 宁	the PRC	4730377	5	2008.12.28	2018.12.27
18.	the Company	嘉 莎	the PRC	4730376	5	2008.12.28	2018.12.27
19.	the Company	欧瑞斯	the PRC	4431047	5	2008.06.14	2018.06.13
20.	the Company	康多益	the PRC	5476881	5	2009.10.28	2019.10.27
21.	the Company	普罗万	the PRC	5476879	5	2009.09.28	2019.09.27
22.	the Company	阳之欣	the PRC	5003960	5	2009.04.21	2019.04.20
23.	the Company	洛 士	the PRC	4628553	5	2008.09.14	2018.09.13
24.	the Company	佳乐弗	the PRC	4431049	5	2008.03.28	2018.03.27

No.	Proprietor	Trademark	Place of Application	Application No.	Class	Date Obtained	Expiry Date
25.	the Company	欧克利	the PRC	3655939	5	2005.12.07	2015.12.06
26.	the Company	高劲	the PRC	4393172	5	2008.02.07	2018.02.06
27.	the Company	替泰普	the PRC	4393179	5	2008.02.07	2018.02.06
28.	the Company	可君意	the PRC	4393180	5	2008.02.07	2018.02.06
29.	the Company	阳之克	the PRC	5003961	5	2009.04.21	2019.04.20
30.	the Company	朗俊	the PRC	5476880	5	2009.09.28	2019.09.27
31.	the Company	欧文	the PRC	4760567	5	2009.05.07	2019.05.06
32.	the Company	桑朵斯	the PRC	4760566	5	2008.12.21	2018.12.20
33.	the Company	欧立沃	the PRC	4760564	5	2008.12.21	2018.12.20
34.	the Company	尔同捷	the PRC	4628555	5	2008.09.14	2018.09.13
35.	the Company	希斯美	the PRC	4431048	5	2008.03.28	2018.03.27
36.	the Company	益倩	the PRC	4393176	5	2008.02.07	2018.02.06
37.	the Company	尔同舒	the PRC	3524604	5	2005.02.14	2025.02.13
38.	the Company	喜宁	the PRC	3655940	5	2005.12.07	2015.12.06

No.	Proprietor	Trademark	Place of Application	Application No.	Class	Date Obtained	Expiry Date
39.	the Company	欣海宁	the PRC	4343785	5	2007.12.28	2017.12.27
40.	the Company	乐美奇	the PRC	4393174	5	2008.02.07	2018.02.06
41.	the Company	阳之杰	the PRC	5003966	5	2009.04.21	2019.04.20
42.	the Company	乙力汀	the PRC	4760565	5	2008.12.21	2018.12.20
43.	the Company	百达喜力	the PRC	5058408	5	2009.05.07	2019.05.06
44.	the Company	阳之瑞	the PRC	5003965	5	2009.04.21	2019.04.20
45.	the Company	阳之宏	the PRC	5003964	5	2009.04.21	2019.04.20
46.	the Company	万克沙斯	the PRC	4760563	5	2008.12.21	2018.12.20
47.	the Company	丰 盈	the PRC	4730379	5	2008.12.28	2018.12.27
48.	the Company	凯瑞清	the PRC	4431052	5	2008.03.28	2018.03.27
49.	the Company	福康敏	the PRC	4393175	5	2008.02.07	2018.02.06
50.	the Company	HEC	the PRC	1973755	5	2002.11.07	2022.11.06
51.	the Company	HEC	the PRC	8587261	5	2011.11.28	2021.11.27
52.	the Company	可能	the PRC	4155624	5	2007.04.14	2017.04.13

No.	Proprietor	Trademark	Place of Application	Application No.	Class	Date Obtained	Expiry Date
53.	the Company	可伦	the PRC	4165710	5	2007.05.14	2017.05.13
54.	the Company	可威	the PRC	4165712	5	2007.05.14	2017.05.13
55.	the Company	可威	the PRC	13865582	5	2015.02.28	2025.02.27
56.	the Company	HEC	the PRC	13604535	29	2015.04.14	2025.04.13
57.	the Company	HEC	the PRC	13913447	29	2015.04.14	2025.04.13
58.	the Company	HEC	the PRC	13439704	29	2015.04.21	2025.04.20

As at the Latest Practicable Date, we have been authorized by our Parent Company to use the following trademarks registered in the PRC:

No.	Proprietor	Trademark	Place of application	Application no.	Class	Valid Period
1.	Parent Company	东阳光	the PRC	5627469	5	2009.11.14-2019.11.13
2.	Parent Company	东阳光	the PRC	6297959	5	2010.03.21-2020.03.20
3.	Parent Company	东阳光	the PRC	5627424	30	2009.08.07-2019.08.06
4.	Parent Company	东阳光	the PRC	9292951	30	2012.04.14-2022.04.13
5.	Parent Company	东阳光药	the PRC	10395474	5	2015.05.14-2025.05.13
6.	Parent Company	东阳光	the PRC	9224300	5	2014.06.14-2024.06.13

As at the Latest Practicable Date, we have registered the following material trademarks in Hong Kong:

No.	Proprietor	Trademark	Place of application	Application no.	Class	Valid Period
1.	the Company	可威	Hong Kong	303152493	5	2014.09.29-2024.09.28
2.	the Company	東陽光	Hong Kong	300997138AB	5	2007.11.20-2017.11.19

As at the Latest Practicable Date, we have applied for the registration of the following material trademarks in Hong Kong:

No.	Proprietor	Trademark	Place of application	Application no.	Class	Date of filling
1.	the Company	东阳光药	Hong Kong	303140180	5	2014.09.18
2.	the Company	长江药业	Hong Kong	303140199	5	2014.09.18
3.	the Company	东阳光	Hong Kong	303517768	5, 10, 35, 44	2015.08.31
4.	the Company	HEC	Hong Kong	303517777	10, 44	2015.08.31
5.	the Company	HEC	Hong Kong	303517786	5, 10, 35, 44	2015.08.31
6.	the Company	东阳光药	Hong Kong	303517795	5, 10, 35, 44	2015.08.31

As at the Latest Practicable Date, we have been authorized by Shenzhen HEC Industrial to use the following trademarks registered in Hong Kong:

No.	Proprietor	Trademark	Place of application	Application no.	Class	Validity period
1.	Shenzhen HEC Industrial		Hong Kong	301026783	1, 2, 6, 16, 35	2008.01.07-2018.01.06
2.	Shenzhen HEC Industrial		Hong Kong	301876311	3	2011.03.31-2021.03.30
3.	Shenzhen HEC Industrial		Hong Kong	301400804	5	2009.08.06-2019.08.05
4.	Shenzhen HEC Industrial		Hong Kong	200000402	9	1998.07.16-2025.07.16
5.	Shenzhen HEC Industrial		Hong Kong	301023902	1, 6, 35	2007.12.31-2017.12.30
6.	Shenzhen HEC Industrial	東陽光	Hong Kong	300997138AA	1, 6, 9, 35	2007.11.20-2017.11.19
7.	Shenzhen HEC Industrial	東陽光	Hong Kong	301085995	2, 4, 10, 14, 16	2008.04.03-2018.04.02
8.	Shenzhen HEC Industrial	東陽光	Hong Kong	301150794	7, 12, 39, 42	2008.06.30-2018.06.29

Patents

As at the Latest Practicable Date, we have registered the following patents which are material in relation to our Company's business:

Patent	Patentee(s)	Patent No.	Patent Type	Date of Application
Benproperine phosphate granules	the Company and Sunshine Lake Pharma	ZL201010208264.8	Invention	2010.06.23
A method for preparing amlodipine	Sunshine Lake Pharma and the Company	ZL201280003318.4	Invention	2012.02.21
Preparation process of mofetil mycophenolate	the Company	ZL200510100489.0	Invention	2005.10.18

Patent	Patentee(s)	Patent No.	Patent Type	Date of Application
Production of pyridil carbonamidine and its salt	the Company	ZL200710026678.7	Invention	2007.02.02
Method for preparing 3-(imidazole-4) pyridine	the Company	ZL200710026676.8	Invention	2007.02.02
Method for purifying gene-recombinant insulin precursor	the Company	ZL200710026682.3	Invention	2007.02.02
Method for preparing amorphous atorvastatin calcium	the Company	ZL200810198803.7	Invention	2008.09.27
Preparation method of azithromycin monohydrate crystal	the Company	ZL200810220584.8	Invention	2008.12.30
Oseltamivir phosphate granula and its preparing method	the Company	ZL200610066995.7	Invention	2006.04.04
Method for preparing simvastatin by one-pot process	Sunshine Lake Pharma and the Company	2011100072311	Invention	2011.01.13
Purification method for insulin crystal or insulin analogue crystal	the Company	2013104553057	Invention	2013.09.29

As at the Latest Practicable Date, we had filed the following patent applications in the PRC which are material to our business:

Patent	Applicant(s)	Application No.	Patent Type	Date of Application
Matrine dispersible tablet and preparation process thereof	Sunshine Lake Pharma and the Company	2011100207234	Invention	2011.01.17
A process for preparation of prasugrel and several novel crystalline forms of prasugrel hydrochloride	Sunshine Lake Pharma and the Company	2012800265213	Invention	2012.06.21
An intermediate of statin drugs and preparation thereof	Sunshine Lake Pharma and the Company	2012800341607	Invention	2012.07.19

Patent	Applicant(s)	Application No.	Patent Type	Date of Application
Application of arginine in improving expression quantity of fermentation-cultured polypeptide containing arginine-arginine in amino acid sequence and method	the Company	2013103618529	Invention	2013.08.19
Recombinant trypsin purifying method	the Company	2013105572869	Invention	2013.11.11
Extraction method of insulin glargine precursor protein	Sunshine Lake Pharma and the Company	2013105906249	Invention	2013.11.20
Preparation method of tiopronin tablets	the Company	2014100171382	Invention	2014.01.15
Synthesis method of fudosteine	the Company	2014105548987	Invention	2014.10.17
Enhanced solid composition of oseltamivir phosphate and its preparation method	Sunshine Lake Pharma and the Company	201410834212X	Invention	2014.12.29
A solid formulation of oseltamivir phosphate	Sunshine Lake Pharma and the Company	2014108513157	Invention	2014.12.30
A method for improving the expression quantity of expression system of methanol yeast	Sunshine Lake Pharma and the Company	2015101756186	Invention	2015.04.14

As at the Latest Practicable Date, we have the right to use the following patents in the PRC. Such right is licensed to Shenzhen HEC Industrial with the benefits being extended to us by Shenzhen HEC Industrial.

Patent	Patentee(s)	Licencee(s)	Patent No.	Patent Type	Expiry Date
Noval compound, its synthetizing process and therapeutic use	Oseltamivir Phosphate Licensor	Shenzhen HEC Industrial	ZL01124714.2	Invention	2016.02.26
Novel compounds and methods for synthesis and therapy	Oseltamivir Phosphate Licensor	Shenzhen HEC Industrial	ZL96190133.0	Invention	2016.02.26
Preparation of cyclohexene carboxylate derivatives and oseltamivir phosphate compound	Oseltamivir Phosphate Licensor	Shenzhen HEC Industrial	ZL97198043.8	Invention	2017.08.22
Method for preparing neurainidase inhibitor RO-64-0796	Oseltamivir Phosphate Licensor	Shenzhen HEC Industrial	ZL00118139.4	Invention	2020.06.09
Phosphine reduction method for converting azide to amide	Oseltamivir Phosphate Licensor	Shenzhen HEC Industrial	ZL00134449.8	Invention	2020.12.01
Process for producing 4,5-diamino shikimic acid derivative	Oseltamivir Phosphate Licensor	Shenzhen HEC Industrial	ZL01104680.5	Invention	2021.02.21
Method for preparing 4,5-diamino shikimic acid derivative	Oseltamivir Phosphate Licensor	Shenzhen HEC Industrial	ZL01116366.6	Invention	2021.04.10
Azide free process for preparing 1,2-diamino compounds	Oseltamivir Phosphate Licensor	Shenzhen HEC Industrial	ZL200480006481.1	Invention	2024.03.10

Domain Names

As at the Latest Practicable Date, we have registered the following material internet domain name in the PRC:

No.	Domain Name	Applicant	Place of Application	Date of Application	Valid Period
1.	hec-changjiang.com	the Company	the PRC	2015.03.18	2015.03.18-2018.03.18

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS, STAFF, MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

Save as disclosed in this prospectus immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), so far as our Directors are aware, none of our Directors, Supervisors or chief executive held any interest or short positions in our Shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO), which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules upon Listing.

Up to the Latest Practicable Date, none of the Directors or Supervisors or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for share or debenture of the Company or any of its associated corporations.

2. Substantial Shareholders

For the information on the persons who will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, please see the "Substantial Shareholders" section of this prospectus.

So far as our Directors are aware, assuming no exercise of the Over-allotment Option, the following persons will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held	Approximately percentage of interest in the relevant class of Shares after the Global Offering (assuming over-allotment option is not exercised)	Approximately percentage of interest in the total share capital of the Company after the Global Offering (assuming over-allotment option is not exercised)
Parent Company	Beneficial owner	Domestic Shares	225,000,000	100%	49.9%
Linzhi HEC Pharmaceutical Investment[(1)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Shenzhen HEC Industrial[(2)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd.[(3)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd.[(4)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Mr. Zhang[(5)]	Interest of controlled corporation	Domestic Shares	225,000,000	100%	49.9%
Ms. Guo[(6)(7)]	Interest of spouse	Domestic Shares	225,000,000	100%	49.9%
North & South Brother Pharma	Beneficial owner	H Shares	75,000,000	33.2%	16.6%
North & South Brother Investment Holdings Limited[(8)]	Interest of controlled corporation	H Shares	75,000,000	33.2%	16.6%
Mr. Mo Kit[(9)]	Interest of controlled corporation	H Shares	75,000,000	33.2%	16.6%
Ample Market Investment Limited	Beneficial owner	H Shares	23,847,914	10.6%	5.3%

Name of Shareholder	Nature of interest	Class of Shares	Number of Shares directly or indirectly held	Approximately percentage of interest in the relevant class of Shares after the Global Offering (assuming over-allotment option is not exercised)	Approximately percentage of interest in the total share capital of the Company after the Global Offering (assuming over-allotment option is not exercised)
Silver Knight Investment Ltd. (Cayman)[10]	Interest of controlled corporation	H Shares	23,847,914	10.6%	5.3%
New Horizon Master IV Investment Ltd. (Cayman)[11]	Interest of controlled corporation	H Shares	23,847,914	10.6%	5.3%
Apsif Investment Ptd Ltd[12]	Interest of controlled corporation	H Shares	23,847,914	10.6%	5.3%
Champion Zone Investment Limited	Beneficial owner	H Shares	11,959,765	5.3%	2.7%
Kingsley Investment Ltd. (Cayman)[13]	Interest of controlled corporation	H Shares	11,959,765	5.3%	2.7%
Raisson Capital. L.P. (Cayman)[14]	Interest of controlled corporation	H Shares	11,959,765	5.3%	2.7%

Notes:

(1) As at the Latest Practicable Date, Linzhi HEC Pharmaceutical Investment owned 44.63% equity interest in our Parent Company, therefore Linzhi HEC Pharmaceutical Investment is deemed to be interested in the Shares held by our Parent Company.

(2) As at the Latest Practicable Date, Shenzhen HEC Industrial owned 100% equity interest in Linzhi HEC Pharmaceutical Investment, therefore Shenzhen HEC Industrial is deemed to be interested in the Shares which are interested by Linzhi HEC Pharmaceutical Investment.

(3) As at the Latest Practicable Date, Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. owned 58% equity interest in Shenzhen HEC Industrial, therefore Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial.

(4) As at the Latest Practicable Date, Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. owned 42% equity interest in Shenzhen HEC Industrial, therefore Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd. is deemed to be interested in the Shares which are interested by Shenzhen HEC Industrial.

(5) As at the Latest Practicable Date, Mr. Zhang owned 99.69% equity interest in Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd., therefore Mr. Zhang is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Yuneng Electric Industrial Co., Ltd..

(6) As at the Latest Practicable Date, Ms. Guo owned 99.51% equity interest in Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd., therefore Ms. Guo is deemed to be interested in the Shares which are interested by Ruyuan Yao Autonomous County Xinjing Technology Development Co., Ltd..

(7) As at the Latest Practicable Date, Ms. Guo is the spouse of Mr. Zhang and is deemed to be interested in the Shares which are interested by Mr. Zhang under the SFO.

(8) As at the Latest Practicable Date, North & South Brother Investment Holdings Limited owned 100% equity interest in North & South Brother Pharma and is deemed to be interested in the Shares which are interested by North & South Brother Pharma.

(9) As at the Latest Practicable Date, Mr. Mo Kit owned 100% equity interest in North & South Brother Investment Holdings Limited and is deemed to be interested in the Shares which are interested by North & South Brother Investment Holdings Limited. Mr. Mo Kit is our non-executive Director.

(10) As at the Latest Practicable Date, Silver Knight Investment Ltd. (Cayman) owned 100% equity interest in Ample Market Investment Limited and is deemed to be interested in the Shares which are interested by Ample Market Investment Limited.

(11) As at the Latest Practicable Date, New Horizon Master IV Investment Ltd. (Cayman) owned 45% equity interest in Silver Knight Investment Ltd. (Cayman) and is deemed to be interested in the Shares which are interested by Silver Knight Investment Ltd. (Cayman).

(12) As at the Latest Practicable Date, Apsif Investment Ptd Ltd owned 50.2% equity interest in Silver Knight Investment Ltd. (Cayman) and is deemed to be interested in the Shares which are interested by Silver Knight Investment Ltd. (Cayman).

(13) As at the Latest Practicable Date, Kingsley Investment Ltd. (Cayman) owned 100% equity interest in Champion Zone Investment Limited and is deemed to be interested in the Shares which are interested by Champion Zone Investment Limited.

(14) As at the Latest Practicable Date, Raisson Capital L.P. (Cayman) owned 100% equity interest in Kingsley Investment Ltd. (Cayman) and is deemed to be interested in the Shares which are interested by Kingsley Investment Ltd. (Cayman).

3. Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration.

Each of the Directors has entered into a service contract with our Company. The principal particulars of these service contracts are: (a) each of the contracts is for a term of three years following each Director's respective appointment date; and (b) each of the contracts is subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable rules.

Each of the Supervisors has entered into a service contract with our Company, in respect of, among other things, compliance with relevant laws, regulations, the Articles of Association and applicable provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

4. Directors' and Supervisors' Remuneration

Save as disclosed in the section headed "Directors, Supervisors and Senior Management" of this prospectus and under Note 6 to the financial information in the Accountants' Report set out in Appendix I to this prospectus, no Director or Supervisor received other remuneration or benefits in kind from our Company in respect of each of the three financial years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015.

5. Disclaimers

Save as disclosed in this prospectus:

(a) none of our Directors or Supervisors and any of the parties listed in the paragraph headed "Qualification of Experts" of this Appendix is:

(i) interested in our promotion, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;

(ii) materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;

(b) none of the parties listed in the paragraph headed "Qualification of Experts" of this Appendix:

(i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or

(ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Shares or any of our securities;

(c) none of our Directors or Supervisors or their associates or any shareholders of our Company who to the knowledge of the Directors owns more than 5% of our issued share capital has any interest in our top five business customers or suppliers;

(d) none of our Directors or Supervisors is a director or employee of a company that has an interest in the share capital of our Company which, once the H Shares are listed on the Stock Exchange, would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO;

(e) none of the Directors is interested in any business which competes or is likely to compete, either directly or indirectly, with our business; and

(f) none of the Directors or Supervisors has been paid in cash or shares or otherwise by any person in respect of the three years ended 31 December 2012, 2013 and 2014, as an inducement to join or upon joining the Company, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

D. OTHER INFORMATION

1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As at the Latest Practicable Date, save as disclosed in this prospectus, our Company is not involved in any litigation, arbitration or administrative proceedings of material importance which could have a material adverse effect on our financial condition or results of operations, and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us.

3. Sole Sponsor

The Sole Sponsor have made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering and any H Shares which may be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3.07 of the Listing Rules.

4. Preliminary Expenses

We have not incurred any material preliminary expenses.

5. Sole Sponsor's Fee

The Sole Sponsor will be paid by our Company a fee of US$500,000 to act as a sponsor to the Company in connection with the Listing.

6. Qualification of Experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
China International Capital Corporation Hong Kong Securities Limited	Licensed corporation under the SFO to conduct Type 1 (Dealing in securities), Type 2 (Dealing in futures contracts), Type 3 (Leveraged foreign exchange trading), Type 4 (Advising on securities), Type 5 (Advising on future contracts), and Type 6 (Advising on corporate finance) regulated activities as defined under the SFO
KPMG	Certified public accountants
Jia Yuan Law Offices	PRC legal adviser
Guanzhou PICO Medicine Information Co., Ltd.	Industry consultant

7. Consents of Experts

Each of the experts referred to in the paragraph headed "Qualification of Experts" in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or opinion and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

8. Compliance Advisor

We will appoint CICC as our compliance advisor upon the Listing in compliance with Rule 3A.19 of the Listing Rules.

9. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate charged on each of the seller and purchaser is 0.1% of the consideration or, if higher, the market value of the H Shares being sold or transferred.

10. No Material Adverse Change

The Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 30 June 2015.

11. Binding Effect

This prospectus shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

13. Promoters

The promoters were Parent Company and North & South Brother Pharma. Save as disclosed in this prospectus, within the two years immediately preceding the Latest Practicable Date, no cash, security or benefit has been paid, allotted or given, or is proposed to be paid, allotted or given to the promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

E. MISCELLANEOUS

(a) Save as disclosed in this prospectus, within the two years preceding the date of this prospectus: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash; and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any shares of our Company.

(b) No share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option.

(c) We have not issued nor agreed to issue any founder shares, management shares or deferred shares.

(d) There are no arrangements under which future dividends are waived or agreed to be waived.

(e) There are no procedures for the exercise of any right of pre-emption or transferability of subscription rights.

(f) There are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business.

(g) There have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months.

(h) There are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong.

(i) No part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Stock Exchange is currently being or agreed to be sought.

(j) The Company has no outstanding convertible debt securities or debentures.

Our Company is a joint stock limited company and is subject to the PRC Company Law.

Our Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules with effect from the Listing Date.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the paragraph headed "Other Information – Consents of Experts" in "Appendix VI – Statutory and General Information" to this prospectus; and

(c) a copy of each of the material contracts referred to in the section headed "Further Information about Our Business – Summary of Material Contracts" in "Appendix VI – Statutory and General Information" to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Freshfields Bruckhaus Deringer at 11th Floor, Two Exchange Square, Central, Hong Kong during normal business hours up to and including the date which is the 14th day from the date of this prospectus:

(a) the Articles of Association;

(b) the accountant's report prepared by KPMG, the text of which is set out in Appendix I to this prospectus;

(c) the report in relation to unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(d) the material contracts referred to in the section headed "Further Information about Our Business – Summary of Material Contracts" in Appendix VI to this prospectus;

(e) the written consents referred to in the section headed "Other Information – Consents of Experts" in Appendix VI to this prospectus;

(f) the service contracts referred to in the section headed "Further Information about Our Directors, Supervisors, Staff, Management and Substantial Shareholders – Service Contracts" in Appendix VI to this prospectus;

(g) the PRC legal opinions issued by Jia Yuan Law Offices, the legal adviser to the Company on the PRC law, confirming that in its opinion, the summary of relevant principal PRC laws and regulatory provisions set out in Appendix IV is a correct summary of the relevant PRC laws and regulatory provisions and in relation to certain aspects of our Group and property interests;

(h) a summary of certain data and information provided by PICO for the purposes of the preparation of the section headed "Industry Overview" of this prospectus; and

(i) the PRC Company Law, the PRC Securities Law, the Mandatory Provisions and the Special Regulations together with their unofficial translations.

YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

宜昌東陽光長江藥業股份有限公司