



福森藥業有限公司

FUSEN PHARMACEUTICAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 01652



GLOBAL OFFERING

Sole Sponsor, Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager



中信建投國際
China Securities International

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers
(in alphabetical order)



農銀國際
ABC INTERNATIONAL



藍山金融
BLUEMOUNT

Joint Bookrunners and Joint Lead Managers
(in alphabetical order)



東興證券(香港)
DONGXING SECURITIES (HONG KONG)



廣發證券(香港)經紀有限公司
GF SECURITIES (HONG KONG) BROKERAGE LIMITED



聯合證券
Head & Shoulders Securities

IMPORTANT

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



Fusen Pharmaceutical Company Limited

福森藥業有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 200,000,000 Shares (subject to reallocation and the Over-allotment Option)
Number of Hong Kong Offer Shares	: 20,000,000 Shares (subject to reallocation)
Number of International Offer Shares	: 180,000,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	: HK\$3.00 per Offer Share, plus brokerage of 1%, 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	: HK\$0.01 per Share
Stock code	: 1652

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GF SECURITIES (HONG KONG) BROKERAGE LIMITED



聯合證券

Head & Shoulders Securities

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 section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix V, 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 documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company on or around Wednesday, July 4, 2018 and, in any event, not later than Friday, July 6, 2018. The Offer Price will be not more than HK\$3.00 per Offer Share and is currently expected to be not less than HK\$2.00 per Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, upon application, the maximum Offer Price of HK\$3.00 per Offer Share for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$3.00 per Offer Share.

If, for any reason, the Offer Price is not agreed by Friday, July 6, 2018 between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us, the Global Offering will not proceed and will lapse.

The Joint Global Coordinators (on behalf of the Hong Kong Underwriters) may, where considered appropriate and with our consent, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$2.00 to HK\$3.00) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of the Stock Exchange at www.hkexnews.hk and on the website of our Company at www.fusenyy.com. Further details are set forth in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

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.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (on behalf of the Hong Kong 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 — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

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 outside the United States in offshore transactions in accordance with Regulation S.

June 28, 2018

EXPECTED TIMETABLE

<p>Latest time for completing electronic applications under WHITE Form eIPO service through the designated website www.eipo.com.hk⁽²⁾</p>	<p>11:30 a.m. on Wednesday, July 4, 2018</p>
<p>Application lists open⁽³⁾</p>	<p>11:45 a.m. on Wednesday, July 4, 2018</p>
<p>Latest time for lodging WHITE and YELLOW Application Forms</p>	<p>12:00 noon on Wednesday, July 4, 2018</p>
<p>Latest time for completing payment of WHITE Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s)</p>	<p>12:00 noon on Wednesday, July 4, 2018</p>
<p>Latest time for giving electronic application instructions to HKSCC⁽⁴⁾</p>	<p>12:00 noon on Wednesday, July 4, 2018</p>
<p>Application lists close⁽³⁾</p>	<p>12:00 noon on Wednesday, July 4, 2018</p>
<p>Expected Price Determination Date⁽⁵⁾</p>	<p>Wednesday, July 4, 2018</p>
<p>(1) Announcement of the Offer Price, the level of indications 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 under the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on</p>	<p>Tuesday, July 10, 2018</p>
<p>(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 as described in the section headed "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this prospectus</p>	<p>Tuesday, July 10, 2018</p>
<p>(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.fusenyy.com⁽⁶⁾ from</p>	<p>Tuesday, July 10, 2018</p>

EXPECTED TIMETABLE

Results of allocations in the Hong Kong Public Offering will be available at www.iporeresults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function from Tuesday, July 10, 2018

Dispatch of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before⁽⁷⁾⁽⁹⁾ Tuesday, July 10, 2018

Dispatch of refund checks and WHITE Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before⁽⁸⁾⁽⁹⁾ Tuesday, July 10, 2018

Dealings in the Shares on the Stock Exchange expected to commence at. 9:00 am on Wednesday, July 11, 2018

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application 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 at or before 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, when the application lists close.
- (3) 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 Wednesday, July 4, 2018, the application lists will not open or close on that day. See “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 for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Wednesday, July 4, 2018 and, in any event, not later than Friday, July 6, 2018. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and us by Friday, July 6, 2018, the Global Offering will not proceed and will lapse.
- (6) None of the website or any of the information contained on the website forms part of this prospectus.
- (7) Share certificates will only become valid at 8:00 a.m. on Wednesday, July 11, 2018 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — The Hong Kong Public Offering — Grounds for Termination” in this prospectus 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.
- (8) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong

EXPECTED TIMETABLE

identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund check, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund check. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund check.

- (9) Applicants who have applied on **WHITE** Application Forms or **WHITE Form eIPO** for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund checks and/or Share certificates in person from our Company's Hong Kong 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 Tuesday, July 10, 2018 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who is eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations which is eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund checks, if any, in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund checks for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies — Personal Collection — (iv) If you apply via Electronic Application Instructions to HKSCC" in this prospectus for details.

Applicants who have applied through the **WHITE Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to the bank account in the form of e-Refund payment instructions. Applicants who have applied 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 in the form of refund checks by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in the sections headed "How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus.

The above expected timetable is a summary only. You should refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus 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.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Fusen Pharmaceutical Company Limited 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 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 authorization 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 Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by and should be read in conjunction with, the full text of this prospectus. You should read the whole document 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 forth in the section headed “Risk Factors” starting on page 26 of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are the leading Shuanghuanglian-based cold medicine brand in terms of revenue in 2017, and Shuanghuanglian-based cold medicine is a major segment in the PCM cold medicine market with a 8.2% share in 2017, both according to the Frost & Sullivan Report. In 2017, in terms of revenue, we were the largest Shuanghuanglian-based cold medicine manufacturer and the eighth largest PCM cold medicine manufacturer with market shares of 33.3% and 2.9%, respectively, both according to the same source. Shuanghuanglian Oral Solutions, one of our major products, is also the largest medicine category in the PCM cold medicine market, accounted for 4.6% of the market in terms of revenue in 2017 according to the Frost & Sullivan Report. In addition to offering our core products Shuanghuanglian-based cold medicines, we are engaged in the research, development, production and sales of a wide variety of PCM and western medicine products for the treatments of cold and fever, cardiovascular diseases and anemia, many of which also enjoy a leading market share in their respective markets according to the Frost & Sullivan Report. For example, in 2017, our Flunarizine Hydrochloride Capsules (鹽酸氟桂利嗪膠囊) had the third largest market share in China, our Chaihu Injection (柴胡注射液) had the fourth largest market share in China and we dominated the Compound Ferrous Sulfate Granules (複方硫酸亞鐵顆粒) in China, all according to the same source.

Our Products

Our expertise lies in high quality OTC and prescription PCM in modern dosage forms. As of the Latest Practicable Date, we produced, marketed and sold 27 types of pharmaceutical products under our Fusen brand. Our product portfolio can be categorized into: (i) Shuanghuanglian-based cold medicines, which include Shuanghuanglian Oral Solutions (雙黃連口服液) and Shuanghuanglian Injections (雙黃連注射液). Shuanghuanglian is a Chinese medicine formula primarily for the treatment of cold; and (ii) other PCM and western medicine products such as Compound Ferrous Sulfate Granules (複方硫酸亞鐵顆粒) and Flunarizine Hydrochloride Capsules (鹽酸氟桂利嗪膠囊). We currently depend on the sales of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections. Both of these are unpatented generic medicines and these products are also manufactured by a number of other PCM companies. Sales of these two products, in aggregate, represented approximately 79.6%, 81.6% and 77.4% of our revenue in 2015, 2016 and 2017. See “Risk Factors — Risks Relating to our Business — We currently depend on the sales of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections”. Our Directors consider that there is sufficient demand for these products in the future. See “Business — Our Products — Future Demand of our Shuanghuanglian-based Cold Medicines” for further details. In 2017, we experienced lower sales volumes of both our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections as compared with 2016. However, our revenues grew by 2.4% primarily due to an increase in the sales of our other PCM and western medicine products. We plan to roll out more new products in the future, and we expect revenue generated from these products to increase in absolute terms. See “Business — Our Products — Other Products” for details of the new products we plan to launch. The table below sets forth a breakdown of our revenue by type of products for the periods indicated.

	Year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
	<i>(in thousands, except for percentages)</i>					
Shuanghuanglian-based medicines:						
Shuanghuanglian Oral Solutions	184,563	50.1	271,857	61.5	257,533	56.9
Shuanghuanglian Injections	109,007	29.5	88,745	20.1	92,837	20.5
Subtotal	293,570	79.6	360,602	81.6	350,370	77.4
Other Products	75,064	20.4	81,386	18.4	102,210	22.6
Total	368,634	100.0	441,988	100.0	452,580	100.0

(1) Including other PCM and western medicine products.

SUMMARY

As of the Latest Practicable Date, 18 of the 27 types of pharmaceutical products we sold were included in the National Insurance Medicines Lists published in 2017, and the revenue generated by these 18 types of products was RMB332.8 million, RMB401.8 million and RMB409.9 million, respectively, for 2015, 2016 and 2017, accounting for 90.3%, 90.9% and 90.6% of our revenue for the respective years. Gross profit from these 18 types of products was RMB147.6 million, RMB191.7 million and RMB219.1 million, respectively, for 2015, 2016 and 2017 accounting for 85.2%, 86.3% and 87.0% of our gross profit for the respective years.

The following table sets forth a breakdown of our gross profit and gross margin by type of products for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	RMB	Margin (%)	RMB	Margin (%)	RMB	Margin (%)
	<i>(in thousands, except for percentages)</i>					
Shuanghuanglian Oral Solutions	67,411	36.5	119,118	43.8	128,766	50.0
Shuanghuanglian Injections	59,981	55.0	51,388	57.9	58,949	63.5
Others ⁽¹⁾	45,885	61.1	51,683	63.5	64,231	62.8
Total	173,277	47.0	222,189	50.3	251,946	55.7

(1) Including other PCM and western medicine products.

The following tables set out the sales volume and average selling prices of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections for the periods indicated:

	Year Ended December 31,		
	2015	2016	2017
	<i>(Liter)</i>		
Shuanghuanglian Oral Solutions			
Sales Volume (10ml)	3,046,466	4,083,024	2,844,132
Sales Volume (20ml)	987,344	1,282,931	1,244,145
	4,033,809	5,365,955	4,088,278
Shuanghuanglian Injections			
Sales Volume (20ml)	1,834,561	1,404,726	1,310,173
	<i>(RMB)</i>		
Shuanghuanglian Oral Solutions			
Average Selling Price (10ml)	0.47	0.52	0.67
Average Selling Price (20ml)	0.82	0.93	1.07
Shuanghuanglian Injections			
Average Selling Price (20ml)	1.19	1.26	1.42

Starting in February 2016 till the end of 2017, we raised the wholesale price of various packaging types of our Shuanghuanglian Oral Solutions several times. These wholesale price hikes resulted in (i) a number of our distributors strategically increased their orders in the first half of 2016 in anticipation of subsequent wholesale price rises. The larger orders in the first half of 2016 resulted in reduced order in the second half of 2016 and 2017; and (ii) a number of distributors determined to reduce orders with us to observe the market reaction to our price rises. In response to such development, we have implemented practical schemes to promote the sales of our Shuanghuanglian Oral Solutions, primarily through discount, upgrading of packaging to strengthen a price-for-value perception and stronger sales efforts.

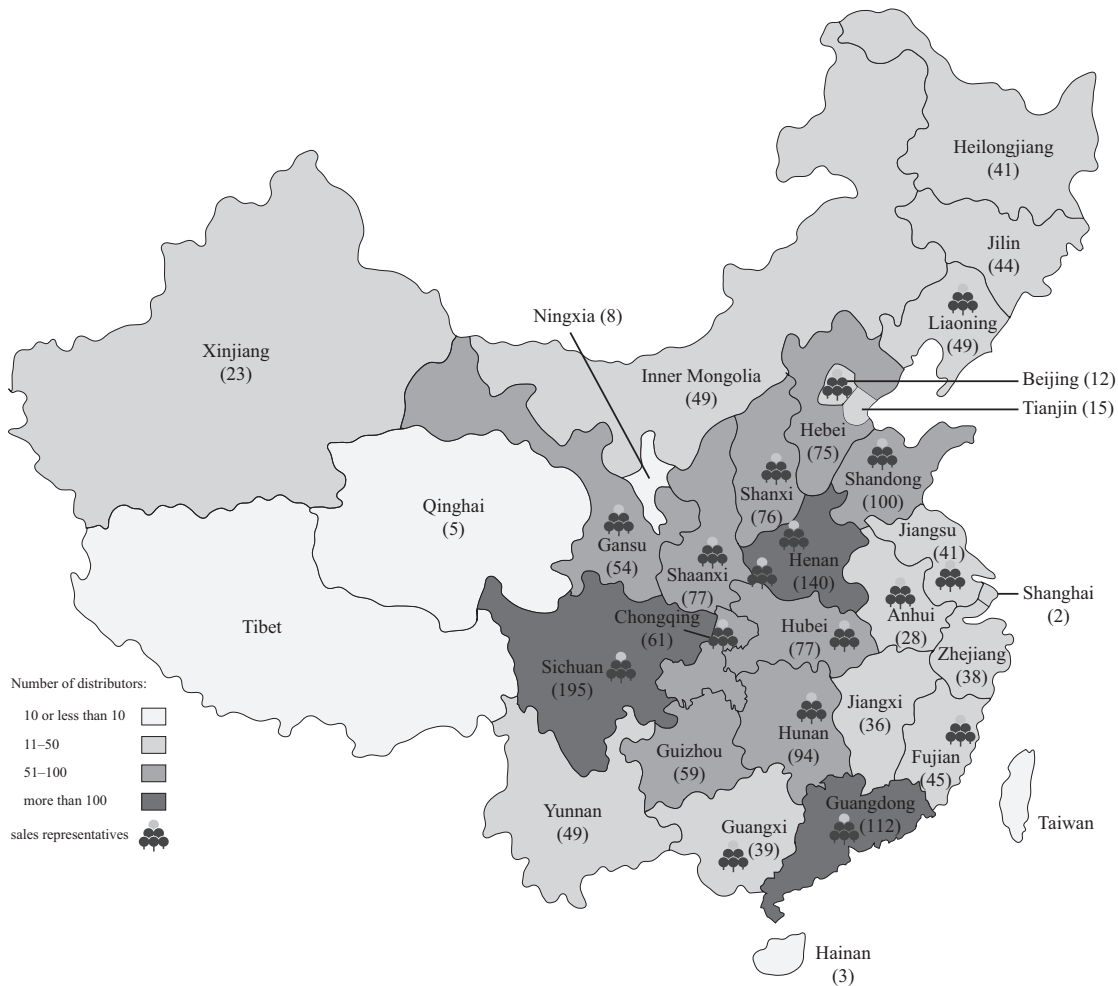
SUMMARY

Our Directors are of the view that the reduced orders we experienced in the second half of 2016 and 2017 is temporary and is unlikely to recur, barring any other circumstances beyond our control on the basis that: (i) we expect our distributors to restock after they gradually sell out the inventories they previously ordered; (ii) the wholesale price of these products have stabilized and there is no substantial negative market reaction to the price hike; and (iii) the various practical measures we implemented have been effective. All these can be further evidenced by the fact that we received larger order volume in the three months ended March 31, 2018.

Sales and Distribution

We have a nationwide sales and distribution network that consisted of 1,647 distributors and 169 direct sales customers, primarily drugstore chains, supervised by our 257 sales representatives stationed at our headquarters and 17 cities as of December 31, 2017. In 2015, 2016 and 2017, sales to distributors accounted for 97.0%, 95.9% and 96.2% of our revenues for the respective years. We believe our extensive sales and distribution network utilizing distributors and direct sales best allows us to maximize our market presence.

Our products are sold through an extensive sales and distribution network that covers 30 of the 31 provinces, autonomous regions and centrally administered municipalities in China. The map below illustrates the coverage of our distribution network (including the number of our distributors in each of the provinces, autonomous regions and centrally administered municipalities) as of December 31, 2017:



SUMMARY

The following table sets forth a breakdown of our revenue by geographical market for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Henan Province	125,588	34.1	152,419	34.5	164,443	36.3
Central China (except for Henan Province) ⁽¹⁾	85,922	23.3	93,045	21.1	93,965	20.8
Southeast China ⁽²⁾	65,164	17.7	80,126	18.1	82,399	18.2
Southwest China ⁽³⁾	39,902	10.8	51,005	11.5	48,441	10.7
Northwest China ⁽⁴⁾	39,677	10.8	50,354	11.4	45,366	10.0
Northeast China ⁽⁵⁾	12,381	3.3	15,039	3.4	17,966	4.0
Total revenue	368,634	100.0	441,988	100.0	452,580	100.0

- (1) Our Central China market includes Hubei, Hunan, Jiangxi, Hebei and Shanxi provinces and Beijing and Tianjin.
- (2) Our Southeast China market includes Guangdong, Hainan, Shandong, Jiangsu, Anhui, Fujian, and Zhejiang provinces, Guangxi Zhuang Autonomous Region and Shanghai.
- (3) Our Southwest China market includes Yunnan, Guizhou and Sichuan provinces, Tibet Autonomous Region and Chongqing.
- (4) Our Northwest China market includes Qinghai, Gansu and Shaanxi provinces and Xinjiang Uyghur Autonomous Region, Ningxia Hui Autonomous Region and Inner Mongolia Autonomous Region.
- (5) Our Northeast China market includes Heilongjiang, Jilin and Liaoning provinces.

Currently, none of our products are subject to any direct government price control. However, the pricing of our products are indirectly affected by various measures if we are selling to public hospitals, including the collective statutory tender process and the collective online direct procurement of common low-price drugs that set a maximum price for certain medicines to be used in public hospitals and medical institutions. For our products that are not subject to retail price controls, we may set the manufacturer suggested retail prices on the basis of a number of factors, including cost of production, research and development, and sales and marketing, changes in the level of supply and demand, and prices of competing products.

Supply, Procurement, Inventory and Logistics

Our primary raw materials includes (i) medicinal herbs used for the production of our PCMs, such as *Ionicera japonica* for our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections, and (ii) other chemicals and auxiliary materials, including chemical APIs in our medicines and excipients in our medicines. We also use a substantial amount of packaging materials such as glass, PVC and paperboard and other auxiliary materials. As we produce all the packaging materials for products in liquid formulations in-house, we only procure the packaging materials for oral solid formulations including tablets, capsules and granules. We purchase substantially all of our raw materials and packaging materials from suppliers in the PRC. We purchase our raw materials only from our list of pre-approved suppliers that meet our quality standards. We engage multiple pre-approved suppliers for each kind of raw materials we procure. We purchase a portion of the medicinal herbs, including *Ionicera japonica*, from Fusen Chinese Medicine, a connected person.

SUMMARY

Competition

The PCM cold medicine market is highly competitive and fragmented. According to the Frost & Sullivan Report, the top 10 manufacturers account for approximately 40.1% of the PCM cold medicine market in terms of wholesale value in 2017. According to the same source, we ranked eighth in the PCM cold medicine in China in terms of revenue in 2017, representing a market share of 2.9%. We are the second largest player in the Shuanghuanglian Oral Solutions market with a market share of 35.5%, while we dominate the Shuanghuanglian injections market with a market share of 91.6%, both in terms of revenue in 2017.

OUR COMPETITIVE STRENGTHS

We attribute our success to and distinguish ourselves by the following key competitive strengths: (i) leading Shuanghuanglian-based cold medicines brand in China; (ii) competitive and diversified product offering supported by strong production capability; (iii) extensive sales and distribution network with nationwide coverage; (iv) stringent quality control system to ensure product safety and quality; and (v) experienced, dedicated and stable management team.

GROWTH STRATEGIES

We plan to pursue the following strategies to drive our future growth: (i) increase the market share of our products; (ii) expand our sales and distribution network and deepen its penetration; (iii) strengthen our research and development effort and broaden our product offering; (iv) optimize and expand our production capacity; (v) engage in selective acquisition and strategic investment to broaden our product offering and extend our presence in the value chain; and (vi) strengthen our sales and marketing activities to achieve stronger brand recognition.

SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

The following is a summary of our consolidated financial information for the periods and as of the dates indicated. We have derived the summary from our consolidated financial information set forth in the Accountants' Report in Appendix I to this prospectus. The below 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 "Financial Information" of this prospectus. Our consolidated financial information was prepared in accordance with IFRSs.

Summary of Consolidated Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth a summary, for the periods indicated, of our consolidated results of operations. Each item has also been expressed as a percentage of our revenue. Our historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Year ended December 31,					
	2015		2016		2017	
	RMB	%	RMB	%	RMB	%
<i>(in thousands, except for percentages)</i>						
Consolidated Statement of Profit or Loss and Other Comprehensive Income						
Revenue	368,634	100.0	441,988	100.0	452,580	100.0
Gross profit.	173,277	47.0	222,189	50.3	251,946	55.7
Profit for the year	46,035	12.5	96,198	21.8	97,051	21.4

The fluctuation of our revenue throughout the Track Record Period was primarily due to the fluctuation in sales volume of our Shuanghuanglian Oral Solutions. On the other hand, the average selling price of our Shuanghuanglian Oral Solutions continued to increase. The decrease in sales volume of our Shuanghuanglian Injections during the Track Record Period was due to tightened restriction on the clinical use of intravenous infusion to patients.

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Summary of Consolidated Statements of Financial Position

The table below sets forth a summary of our consolidated statements of financial position as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Non-current assets	205,312	206,178	198,471
Current assets	1,156,165	944,910	752,749
Current liabilities	1,016,807	994,628	731,978
Net current assets/(liabilities)	139,358	(49,718)	20,771
Non-current liabilities	150,475	29,851	36,465
Total equity	194,195	126,609	182,777

We recorded net current liabilities of RMB49.7 million as of December 31, 2016 as we distributed dividends of RMB163.7 million. We recorded net current assets of RMB20.8 million as of December 31, 2017 primarily due to an increase in cash and cash equivalents and a decrease in bank and other loans. See “Financial Information — Working Capital” for detailed analysis on our net current liability position.

MAJOR FINANCIAL RATIOS

The following table sets forth the major financial ratios for the periods or as of the dates indicated:

	For the Year Ended/As of December 31,		
	2015	2016	2017
Profitability			
Gross profit margin ⁽¹⁾	47.0%	50.3%	55.7%
Net profit margin ⁽²⁾	12.5%	21.8%	21.4%
Rates of Return			
Return on assets ⁽³⁾	2.8%	7.7%	9.2%
Return on equity ⁽⁴⁾	25.8%	60.0%	62.7%
Liquidity			
Current ratio ⁽⁵⁾	1.14	0.95	1.03
Gearing ratio ⁽⁶⁾	85.7%	89.0%	80.8%

- (1) Gross profit margin is calculated by dividing gross profit for the relevant period by revenue for such period.
- (2) Net profit margin is calculated by dividing profit for the relevant period by revenue for such period.
- (3) Return on assets is calculated by dividing profit for the relevant period by average total assets at the end of the relevant period.
- (4) Return on equity is calculated by dividing profit for the relevant period by average total equity at the end of the relevant period.
- (5) Current ratio is calculated by dividing current assets by current liabilities.
- (6) Gearing ratio is calculated by dividing total liabilities by total assets.

SHAREHOLDERS' INFORMATION

Immediately following completion of the Global Offering and the Capitalization Issue (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option and any options as may be granted under the Share Option Scheme), Full Bliss, Rayford and One Victory will each control 22.52%, 22.52% and 15.86% of the issued share capital of our Company, respectively. Full Bliss is wholly-owned by Mr. Cao Changcheng. Rayford is a wholly-owned subsidiary of Vistra Trust (Labuan) Limited which is a trustee of the Fusen Trust, whereby 47 individuals are the beneficiaries under the Fusen Trust, and Mr. Cao Changcheng is entitled to exercise the voting rights as the investment manager at his sole discretion. One Victory is wholly-owned by Mr. Cao Dudu, whereby Mr. Cao Changcheng was entrusted to exercise the voting rights attaching to the Shares owned by One Victory. For the purpose of the Listing Rules, Mr. Cao Changcheng and Full Bliss are a group of Controlling Shareholders because Mr. Cao Changcheng, through Full Bliss, Rayford and One Victory, will control an aggregate of 487,200,000 Shares, representing 60.90% of the enlarged issued share

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capital of our Company upon completion of the Global Offering and the Capitalization Issue (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option and any options as may be granted under the Share Option Scheme). Please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus for further details.

Each of Full Bliss and Mr. Cao Changcheng confirms that he or it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group, and would require disclosure pursuant to Rule 8.10 of the Listing Rules. Our Controlling Shareholders have entered into the Deed of Non-competition in favor of our Company (for ourselves and for the benefit of each other member of our Group) in relation to undertakings on potential competition. For further details, please refer to the paragraph headed “Relationship with Controlling Shareholders — Non-Competition Undertakings” of this prospectus.

PRE-IPO INVESTMENTS

On March 19, 2017, our Company allotted and issued 6,566,672 Shares to Wealth Depot as consideration shares for the acquisition of 100% shareholding of Wealth Depot (HK) by Jinli on the same day. After the said acquisition, Ms. Ivy Connie Sun (“**Ms. Sun**”) through Wealth Depot will hold approximately 6.66% of the issued share capital of our Company.

On August 10, 2017, our Company allotted and issued 44,441,428 Shares and 10,206,204 Shares to One Victory and First Joint Elegant, respectively, at the total cash consideration of RMB50,929,876.488 and RMB11,696,309.784, respectively. Immediately after such share subscriptions, One Victory and First Joint Elegant will each control approximately 29.00% and 6.66% of the issued share capital of our Company, respectively.

On December 14, 2017, China Resources Pharmaceutical Fund acquired 12,041,294 Shares and 3,283,336 Shares of our Company from One Victory and Wealth Depot at a cash consideration of RMB70,717,300 and RMB19,282,699, respectively. Immediately after completion of the said share purchase, One Victory, Wealth Depot and China Resources Pharmaceutical Fund will hold approximately 21.14%, 2.14% and 10.00% of the issued share capital of our Company, respectively.

Upon completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option and any options as may be granted under the Share Option Scheme are not exercised), the enlarged issued share capital of our Company will be owned as to approximately 22.52% by Full Bliss, 22.52% by Rayford, 1.61% by Wealth Depot, 15.86% by One Victory, 5.00% by First Joint Elegant and 7.50% by China Resources Pharmaceutical Fund, respectively. For further details, please refer to the section headed “History, Reorganization and Corporate Structure — Pre-IPO Investments” of this prospectus.

CONNECTED TRANSACTIONS

During the Track Record Period, our Group had entered into certain transactions with Fusen Chinese Medicine (a close associate of Mr. Cao Changcheng and a connected person of our Group) for the supply of certain medicinal herbs for production of our Shuanghuanglian-based cold medicine products. After the Listing, we will continue to carry out such transactions with Fusen Chinese Medicine and such transaction will constitute non-exempt continuing connected transaction for our Group under Chapter 14A of the Listing Rules. Details of the purchase transactions with Fusen Chinese Medicine are set out in the section headed “Connected Transactions — Non-Exempt Continuing Connected Transaction” of this prospectus.

ENTRUSTMENT ARRANGEMENT

In February 2017, a deed of confirmation was executed by each of the 47 individual shareholders of Henan Fusen confirming that since they became interested in and possessed voting rights in Henan Fusen, our major operating subsidiary, Mr. Cao Changcheng was entrusted to exercise the voting rights attaching to their equity interest in Henan Fusen at the sole discretion of Mr. Cao Changcheng. In August 2017, a deed of execution was executed by Mr. Cao Dudu and One Victory confirming that since One Victory became interested in and possessed voting rights in our Company, Mr. Cao Changcheng was entrusted to exercise the voting rights attaching to their interest in our Company at the sole discretion of Mr. Cao Changcheng. For further details, please refer to the section headed “History, Reorganization and Corporate Information — Entrustment Arrangement” of this prospectus.

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GLOBAL OFFERING STATISTICS

Offer size:	Initially 200,000,000 Offer Shares, representing 25% of the enlarged issued share capital of our Company
Offering structure:	20,000,000 Offer Shares, representing approximately 10% of the number of Offer Shares initially available under the Global Offering for the Hong Kong Public Offering (subject to reallocation) and 180,000,000 Offer Shares, representing approximately 90% of the number of Offer Shares initially available under Global Offering for the International Offering (subject to reallocation and the Over-allotment Option)
Over-allotment Option:	Up to 30,000,000 Offer Shares, representing 15% of the number of Offer Shares initially available under the Global Offering
Offer Price Per Share:	HK\$2.00 to HK\$3.00 per Offer Share

	<u>Based on an Offer Price of HK\$2.00 per Share</u>	<u>Based on an Offer Price of HK\$3.00 per Share</u>
Market capitalization of our Shares ⁽²⁾	HK\$1,600 million	HK\$2,400 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽³⁾	HK\$0.72	HK\$0.96

- (1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options granted under the Share Option Scheme.
- (2) The calculation of market capitalization is based on 800,000,000 Shares expected to be issued under the Global Offering, and assuming that 800,000,000 Shares are issued and outstanding immediately following the completion of the Capitalization Issue and the Global Offering.
- (3) The unaudited pro forma adjusted consolidated net tangible asset per Share is calculated after making the adjustments referred to in Appendix II “Pro Forma Financial Information” and on the basis that 800,000,000 Shares are issued and outstanding immediately following the completion of the Capitalization Issue and 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\$2.50 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$454.4 million, after deduction of underwriting fees and commissions and estimated expenses 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:

<u>Amount</u> <i>(HK\$ in million)</i>	<u>Approximate % of total estimated net proceeds</u>	<u>Intended use</u>
136.3	30%	establishment of production facilities, warehouse, processing facilities which are expected to be in full use in 2020
45.4	10%	advertising and marketing of our products
45.4	10%	expansion of distribution and marketing network
45.4	10%	research and development activities
68.2	15%	potential merger and acquisition
68.2	15%	acquisition of production permits of new types of products
45.4	10%	working capital and general corporate purposes

Please see the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

SUMMARY

DIVIDEND POLICY

Our Board has an absolute discretion to declare any dividends for any year and if it decides to declare a dividend, the amount of the dividends will be subject to our Shareholders' approval. Future dividend payments will depend on payments made from our PRC subsidiaries. Certain payments from our PRC subsidiaries are subject to PRC taxes, statutory reserve requirements and other legal restrictions.

In 2015, 2016 and 2017, dividends of RMB14.0 million, RMB163.7 million and RMB18.2 million were declared and paid or payable. We currently intend to adopt, after our Listing and subject to the limitations as further described in the section headed "Financial Information — Dividend Policy" of this prospectus. Directors currently intend to adopt a general annual dividend policy of declaring and paying dividends on an annual basis of no less than 10% of our distributable reserve for any particular financial year. Under Cayman Companies Law, reserve that can be distributed as dividend is the entire share premium account, provided that after the distribution the company needs to remain solvent. Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate and other factors that our Board deems relevant and we cannot assure you that dividends of any amount will be declared or distributed in any given year.

LISTING EXPENSES

Our 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) incurred or to be incurred in relation to the Global Offering are approximately RMB61.2 million, of which RMB33.7 million was or will be charged as general and administrative expenses to our consolidated statement of profit or loss and other comprehensive income and RMB27.5 million was or will be charged against equity, in accordance with International Accounting Standard 32, Financial Instruments: Presentation ("IAS 32"). Pursuant to such accounting standard, 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, which do not relate to the offering of new Shares are charged to the consolidated statement 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 the number of new Shares issued relative to the total number of Shares in issue and listed on the Stock Exchange.

In 2016 and 2017, we recognized approximately RMB9.9 million and RMB13.9 million of listing expenses, respectively as our general and administrative expenses. From January 1, 2018 up to the Latest Practicable Date, we incurred listing expenses of RMB6.5 million. We expect to incur an additional RMB30.8 million of listing expenses (based on 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) from the Latest Practicable Date until the completion of Global Offering. We expect to charge 100% of the underwriting commissions against equity while 25% of the total fees incurred for services rendered by professional advisors that are jointly related to the offering of new Shares and the Listing of existing Shares will be recognized as equity and 75% of the total fees incurred for services rendered by professional advisors will be recognized as our general and administrative expenses. We estimate that listing expenses of approximately RMB9.8 million, representing the portion of the 75% of the fees for professional advisors and other expenses incurred or to be incurred after December 31, 2017 will be charged to our consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2018. Our estimated listing expense of approximately RMB27.5 million, including (i) underwriting commission of RMB10.3 million, (ii) the discretionary incentive fees in Global Offering of RMB8.2 million and (iii) 25% of the fees for professional advisors and other expenses of RMB9.0 million, incurred or to be incurred after the December 31, 2017, is expected to be charged against equity upon the Listing and issuance of new Shares.

MATERIAL NON-COMPLIANCES

As a result of a stronger credit standing, Henan Fusen was used as the primary funding vehicles for the Affiliates, and therefore engaged in Excess Bill Financing. Upon receiving advice that such bill financing activities were not in strict compliance with relevant PRC laws and regulations, we implemented policies and training steps to ensure that any Excess Bill Financing will not take place again, and have since June 2015 ceased the Excess Bill Financing practice and settled all the outstanding amount in December 2015. Please refer to "Business — License, Regulatory Approvals and Compliance Record — Bill Financing" for further details.

In 2015 and 2016, we failed to pay the housing provident funds for our employees in accordance with the law. We have made provision for the unpaid housing provident fund contributions of approximately RMB2.1 million and RMB2.1 million for each of 2015 and 2016, respectively, despite our PRC Legal Adviser's view that the possibility of the relevant PRC authorities imposing any administrative penalties or fines is remote. In the event that we receive requests from the relevant

SUMMARY

authorities, we intend to immediately pay the outstanding housing provident funds accordingly. Starting in 2017, we began to make payment for the housing provident fund in accordance with relevant laws and regulations. See “Business — License, Regulatory Approvals and Compliance Record” for further details.

RECENT DEVELOPMENT

Set forth below are certain material developments on our business and results of operations after December 31, 2017, which is the end of the Track Record Period:

- In the three months ended March 31, 2018, the sales volume of our Shuanghuanglian Oral Solutions amounted to 1,191 thousand liters, representing an increase of 5.4% from 1,130 thousand liters in the three months ended March 31, 2017. The average selling price of our 10ml Shuanghuanglian Oral Solutions increased from RMB0.63 per unit in the three months ended March 31, 2017 to RMB0.73 per unit in the three months ended March 31, 2018 and the average selling price of our 20ml Shuanghuanglian Oral Solutions increased from RMB0.98 per unit in the three months ended March 31, 2017 to RMB1.17 per unit in the three months ended March 31, 2018.
- In the three months ended March 31, 2018, the sales volume of our Shuanghuanglian Injections amounted to 646 thousand liters, representing an increase of 58.7% from 407 thousand liters in the three months ended March 31, 2017. The average selling price decreased from RMB1.42 per unit in the three months ended March 31, 2017 to RMB1.41 per unit in the three months ended March 31, 2018.
- As a result of the foregoing, in the three months ended March 31, 2018, revenues from our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections amounted to RMB81.3 million and RMB45.4 million, representing increases of 23.8% and 57.5% from the same period in 2017. In particular, revenues from our 10ml Shuanghuanglian Oral Solutions and 20ml Shuanghuanglian Oral Solutions in the three months ended March 31, 2018 amounted to RMB58.6 million and RMB22.7 million, representing increases of 26.7% and 17.0% from the same period in 2017. Revenue from our other products for the three months ended March 31, 2018 amounted to RMB31.2 million, representing an increase of 31.6% from the same period in 2017.
- In the three months ended March 31, 2018, our revenue amounted to RMB158.0 million, representing an increase of 33.6% from the same period in 2017. The higher sales volumes for our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections are the result of a cold outbreak starting towards the end of 2017. The higher average selling prices across the board was the result of a higher wholesale price we introduced towards the end of 2017.

The financial information disclosed above is derived from the unaudited consolidated financial statements for the three months ended March 31, 2018, which is subject to review by our reporting accountants in accordance with the Hong Kong Standard on Review Engagements 2410 “Review on Interim Financial Information Performed by the Independent Auditor of the Entity”.

After due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial and trading position or prospects since December 31, 2017, and there is no event since December 31, 2017 which would materially affect the information shown in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

RISK FACTORS

There are certain risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks can be categorized into (i) risks relating to our business, (ii) risks relating to our industry, (iii) risks relating to doing business in China and (iv) risks relating to the Global Offering and our Shares. We believe the most significant risks we face include: our dependence on the sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections; harm to our brand names; our ability to grow our market shares in our target markets; the high revenue contribution from Henan province; our reliance on our distribution network and distributors; our limited control on distributors; our ability to comply with relevant quality and safety standards; and the extensive regulation framework that is subject to change from time to time.

A detailed discussion of all the risk factors involved is set forth in “Risk Factors” and you should read the whole section carefully before you decide to invest in the Offer Shares.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“Affiliates”	business entities controlled by Mr. Cao Changcheng that are not part of our Group
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN applications form(s) or, where the context so requires, any of them that is used in connection with the Hong Kong Public Offering
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company conditionally adopted on June 14, 2018, which will become effective upon the Listing, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	our board of Directors
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capital Increase Agreement”	the capital increase agreement entered into between Fusen Shiye, Henan Fusen and Wealth Depot (HK) on December 5, 2016 in relation to Wealth Depot (HK)’s cash injection of RMB7,481,900 to Henan Fusen, details of which are set out in the paragraph headed “History, Reorganization and Corporate Structure — Pre-IPO Investments” in this prospectus
“Capitalization Issue”	the issue of Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of our Company, as further described in the section headed “Statutory and General Information — (A) Further Information about our Company — 3. Written resolutions of our Shareholders passed on June 14, 2018” in Appendix IV to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended or supplemented or otherwise modified from time to time

DEFINITIONS

“CBRC”	China Banking Regulatory Commission
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or 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, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CFDA”	China Food and Drug Administration
“China” or “PRC”	the People’s Republic of China
“China Resources Pharmaceutical Fund”	China Resources Pharmaceutical (Shantou) Industry Investment Fund Partnership (LLP)* (華潤醫藥(汕頭)產業投資基金合夥企業(有限合夥)), a partnership set up in the PRC with limited liability on December 7, 2017 and one of our Pre-IPO Investors
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Cloud Dollar”	Cloud Dollar Investments Limited (衡盛投資有限公司), a company incorporated in Hong Kong with limited liability on November 1, 2012 and wholly-owned by Jinli, our wholly-owned subsidiary
“Company,” “Fusen Pharmaceutical,” “our Company,” “we,” or “us”	Fusen Pharmaceutical Company Limited (福森藥業有限公司), an exempted company incorporated in the Cayman Islands with limited liability on January 18, 2013 and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified 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, supplemented or otherwise modified from time to time

DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the Listing Rules and, unless the context otherwise requires, refers to, Mr. Cao Changcheng and Full Bliss
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Dakin Capital”	Dakin Capital Limited, a corporation licensed to carrying on type 6 (advising on corporate finance) regulated activity under the SFO, acting as our compliance advisor upon Listing
“Deed of Indemnity”	a deed of indemnity dated June 14, 2018 and executed by our Controlling Shareholders in favor of our Company (for ourselves and as trustee for and on behalf of our subsidiaries), particulars of which are set out in the paragraph headed “(E) Other Information — 1. Tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-competition”	a deed of non-competition dated June 14, 2018 and executed by our Controlling Shareholders and our Company (for ourselves and as trustee for and on behalf of our subsidiaries) in respect of certain non-competition undertakings given by our Controlling Shareholders in favor of us, particulars of which are set out in the section headed “Relationship with Controlling Shareholders — Non-competition undertaking” in this prospectus
“Director(s)”	the director(s) of our Company
“DMHSRGO”	General Office of Leadership Group of Deepening the Medical and Health System Reform under the State Council (國務院深化醫藥衛生體制改革領導小組)
“EIT”	enterprise income tax
“EIT Law”	the PRC Enterprise Income Tax Law
“EIT Regulations”	the Regulation on the Implementation of the EIT Law
“Excess Bill Financing”	bill financing arrangements which involves the use of the same sales and purchase contract as the basis to issue acceptance notes with more than one domestic municipal, provincial and national commercial banks in the PRC, and therefore the aggregate face amount of the acceptance notes based on one sales and purchase contract was greater than the actual transaction amounts
“Financed Affiliates”	Affiliates who received proceeds from the Excess Bill Financing

DEFINITIONS

“First Joint Elegant”	First Joint Elegant Limited (第一聯雅有限公司) (formerly known as Joint Elegant Limited (聯雅有限公司)), a company incorporated in the BVI with limited liability on July 28, 2016 and is wholly-owned by Mr. Lam Yiu Por, an independent third party and one of our Pre-IPO Investors
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research agency
“Frost & Sullivan Report”	a market research report commissioned by us and prepared by Frost & Sullivan on the overview of the PCM cold medicine market in China
“Full Bliss”	Full Bliss Holdings Limited, a company incorporated in the BVI with limited liability on November 30, 2012 and one of our Controlling Shareholders, which is wholly-owned by Mr. Cao Changcheng
“Fusen Chinese Medicine”	Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited* (浙川縣福森中藥材種植開發有限公司), a company incorporated in the PRC with limited liability, a connected person of our Company under the Listing Rules and wholly-owned by Fusen Shiye which in turn was owned as to 50% by Mr. Cao Changcheng and as to 50% by 47 other individual shareholders who were the individual shareholders of Henan Fusen prior to the Reorganization
“Fusen Shiye”	Henan Fusen Shiye Limited* (河南福森實業有限公司), a company incorporated in the PRC with limited liability and owned as to 50% by Mr. Cao Changcheng and as to 50% by 47 other individual shareholders who were the individual shareholders of Henan Fusen prior to the Reorganization, and hence a connected person of our Company under the Listing Rules

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“Fusen Trust”	a trust established by a deed of settlement dated June 14, 2013 between Mr. Cao Dudu, who was acting on behalf of and under the authorization and instructions of Mr. Cao Changcheng, as settlor, and Vistra Trust (Labuan) Limited, as trustee which is entrusted to hold the entire shareholding of Rayford on trust for certain individual shareholders as the beneficiaries, details of which are set out in the section headed “History, Reorganization and Corporate Structure — Reorganization — (c) Establishment of the Fusen Trust” in this prospectus
“Fushan Medicinal Packaging”	Henan Xichuan Fushan Medicinal Packaging Company Limited* (河南省浙川伏山藥用包材有限責任公司), a company incorporated in the PRC with limited liability on July 31, 2003 and our non-wholly-owned subsidiary owned as to approximately 86.15% by Henan Fusen
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Great Health”	Henan Fusen Great Health Industry Limited* (河南福森大健康產業有限公司) (formerly known as Henan Fusen Food & Beverage Co., Ltd.* (河南福森食品飲料有限公司)), a company incorporated in the PRC with limited liability and wholly-owned by Fusen Shiye which in turn was owned as to 50% by Mr. Cao Changcheng and as to 50% by 47 other individual shareholders and hence a connected person of our Company under the Listing Rules
“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” or “our Group”	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be)
“Henan Fusen”	Henan Fusen Pharmaceutical Company Limited* (河南福森藥業有限公司), a company incorporated in PRC with limited liability on October 10, 2003 and our wholly-owned subsidiary owned as to approximately 93.34% by Nanyang Hengsheng (our wholly-owned subsidiary) and approximately 6.66% by Wealth Depot (HK) (our wholly-owned subsidiary)
“Henan Xichuan Pharmaceutical”	Henan Xichuan Pharmaceutical Group Company Limited* (河南浙川製藥集團有限公司), a state-owned enterprise established in the PRC
“HK\$” or “Hong Kong dollars” or “HK dollars” or “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

DEFINITIONS

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 20,000,000 Shares initially offered by our Company for subscription pursuant to 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 at the Offer Price on the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 27, 2018 relating to the Hong Kong Public Offering and entered into among our Company, our Controlling Shareholders, Rayford, One Victory, Mr. Cao Dudu, China Securities (International) Corporate Finance Company Limited, the Joint Global Coordinators and the Hong Kong Underwriters as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus
“IFRSs”	International Financial Reporting Standards
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not our connected persons or associates of our connected persons as defined under the Listing Rules
“International Offer Shares”	the 180,000,000 Shares initially offered by our Company for subscription at the Offer Price pursuant to the International Offering together with, where relevant, any additional Shares which may be issued by our Company pursuant to the 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 by the International Underwriters at the Offer Price outside the United States in offshore transactions in accordance with Regulation S, as further described in the section headed “Structure of the Global Offering” in this prospectus

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“International Underwriters”	the group of international underwriters, led by the Joint Global Coordinators, that is expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around July 4, 2018 by, among others, our Company, the Joint Global Coordinators, the Joint Bookrunners and the International Underwriters in respect of the International Offering, as further described in the section headed “Underwriting — The International Offering” in this prospectus
“Jinli”	Jinli International Limited (錦麗國際有限公司), a company incorporated in the BVI with limited liability on November 13, 2012 and wholly-owned by our Company
“Joint Bookrunners”	China Securities (International) Corporate Finance Company Limited, ABCI Capital Limited, Bluemount Securities Limited, Dongxing Securities (Hong Kong) Company Limited, Head & Shoulders Securities Limited and GF Securities (Hong Kong) Brokerage Limited
“Joint Global Coordinators”	China Securities (International) Corporate Finance Company Limited, ABCI Capital Limited and Bluemount Securities Limited
“Joint Lead Managers”	China Securities (International) Corporate Finance Company Limited, ABCI Securities Company Limited, Bluemount Securities Limited, Dongxing Securities (Hong Kong) Company Limited, Head & Shoulders Securities Limited and GF Securities (Hong Kong) Brokerage Limited
“KPMG”	KPMG, our Company’s reporting accountants
“Latest Practicable Date”	June 21, 2018, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of our 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 or around Wednesday, July 11, 2018, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company (as amended from time to time), conditionally adopted on June 14, 2018, which will become effective upon the Listing, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“Mr. Cao Changcheng”	Mr. Cao Changcheng (曹長城), an executive Director and the Chairman of our Company, one of our Controlling Shareholders and the father of Mr. Cao Dudu
“Mr. Cao Dudu”	Mr. Cao Dudu (曹篤篤), an executive Director and the chief executive officer of our Company and the son of Mr. Cao Changcheng
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOH”	Ministry of Health of the People’s Republic of China (中華人民共和國衛生部) one of the predecessors of the NHFPC
“Nanyang Fusen”	Nanyang Fusen Magnesium Powder Limited* (南陽福森鎂粉有限公司), a company incorporated in the PRC with limited liability, a connected person of our Company under the Listing Rules and owned as to approximately 53.85% by Mr. Cao Changcheng, our executive Director, Chairman and Controlling Shareholder, as to approximately 15.38% by Mr. Chi Yongsheng, our executive Director, as to approximately 15.38% by Mr. Fu Jiancheng, our vice president, and as to approximately 15.38% by Mr. Quan Daliang who is a beneficiary under the Fusen Trust
“Nanyang Hengsheng”	Nanyang Hengsheng Enterprise Management Services Limited* (南陽衡盛企業管理服務有限公司), a company incorporated in the PRC with limited liability on December 12, 2012 and wholly-owned by Cloud Dollar which is our wholly-owned subsidiary
“NDRC”	National Development and Reform Commission (中華人民共和國發展和改革委員會)
“NHFPC”	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)
“Nomination Committee”	the nomination committee of the Board
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$3.00 and expected to be not less than HK\$2.00, at which Hong Kong Offer Shares are to be subscribed, to be determined in the manner further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus

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“Offer Share(s)”	the Hong Kong Offer Shares and the International Offer Shares together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option
“One Victory”	One Victory Investments Limited (致凱投資有限公司), a company incorporated in the BVI with limited liability on July 4, 2017 and is wholly-owned by Mr. Cao Dudu, our executive Director and the chief executive officer of our Company
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an aggregate of 30,000,000 additional Shares at the Offer Price to cover over-allocations in the International Offering, if any, further details of which are described in the section headed “Structure of the Global Offering” in this prospectus
“PBOC”	the People’s Bank of China
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Adviser”	Commerce & Finance Law Offices, the legal adviser to our Company as to the laws of the PRC
“Pre-IPO Investments”	the transactions contemplated under the Capital Increase Agreement, the Share Transfer Agreement, the Share Subscription Agreement and the Share Purchase Agreement as further described in the paragraph headed “History, Reorganisation and corporate structure — Pre-IPO Investments” of this prospectus
“Pre-IPO Investors”	Wealth Depot, One Victory, First Joint Elegant and China Resources Pharmaceutical Fund
“Price Determination Agreement”	the agreement to be entered into by the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price

DEFINITIONS

“Price Determination Date”	the date, expected to be on or around July 4, 2018 (Hong Kong time) on which the Offer Price is determined, or such later time as the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and our Company may agree, but in any event no later than July 6, 2018
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offering
“Protiviti”	Protiviti Shanghai Co., Ltd.
“Rayford”	Rayford Global Limited, a company incorporated in the BVI with limited liability on February 26, 2013 and controlled by the Fusen Trust
“Receiving Bank”	Wing Lung Bank Limited
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganization”	the reorganization arrangements undergone by our Group in preparation for the Listing as described in the section headed “History, Reorganization and Corporate Structure — Reorganization” in this prospectus
“SAFE”	State Administration of Foreign Exchange of the People’s Republic of China (中華人民共和國國家外匯管理局)
“SAFE Circular No. 13”	the Circular on Further Simplifying and Improving the Direct Investment-Related Foreign Exchange Administration Policies (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated by SAFE on February 13, 2015
“SAFE Circular No. 37”	the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-trip Investments by Domestic Residents through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) promulgated by SAFE on July 4, 2014
“SAIC”	State Administration of Industry and Commerce of the People’s Republic of China (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation of the People’s Republic of China (中華人民共和國國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shareholder(s)”	holder(s) of our Shares
“Shares”	ordinary share(s) in the share capital of our Company with nominal value or par value of HK\$0.01 each
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on June 14, 2018, the principal terms of which are summarized in the paragraph headed “(D) Share Option Scheme” in Appendix IV to this prospectus
“Share Purchase Agreement”	the share purchase agreement entered into between China Resources Pharmaceutical Fund, One Victory, Wealth Depot, our Company, Henan Fusen and Mr. Cao Changcheng on December 14, 2017 in relation to the purchase of 12,041,294 Shares and 3,283,336 Shares by China Resources Pharmaceutical Fund from One Victory and Wealth Depot respectively, details of which are set out in the paragraph headed “History, Reorganization and Pre-IPO Investments” in this prospectus
“Share Subscription Agreement”	the share subscription agreement entered into between One Victory, First Joint Elegant and our Company on August 10, 2017 in relation to the subscription of 44,441,428 Shares and 10,206,204 Shares by One Victory and First Joint Elegant respectively, details of which are set out in the paragraph headed “History, Reorganization and Corporate Structure — Pre-IPO Investments” in this prospectus
“Share Transfer Agreement”	the share transfer agreement entered into between Jinli and Wealth Depot, Ms. Ivy Connie Sun and our Company on March 19, 2017 in relation to the acquisition of the entire shareholding of Wealth Depot (HK) by Jinli, details of which are set out in the paragraph headed “History, Reorganization and Corporate Structure — Reorganization” in this prospectus
“Sole Sponsor”	China Securities (International) Corporate Finance Company Limited
“Stabilizing Manager”	China Securities (International) Corporate Finance Company Limited

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“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on or about the Price Determination Date between the Stabilizing Manager (or its affiliates acting on its behalf) and One Victory, pursuant to which One Victory will agree to lend up to 30,000,000 Shares to the Stabilizing Manager on terms set forth herein
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Track Record Period”	the period comprising the three financial years ended December 31, 2017
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the International Underwriting Agreement and the Hong Kong Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“Wealth Depot”	Wealth Depot Limited, a company incorporated in the Republic of Seychelles with limited liability on September 23, 2013 and our Shareholder, which is wholly-owned by an independent third party and one of our Pre-IPO Investors
“Wealth Depot (HK)”	Wealth Depot (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability on October 5, 2016 and wholly-owned by Jinli, our wholly-owned subsidiary
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s own name
“ 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

DEFINITIONS

“**YELLOW** Application Form(s)” the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS

“%” per cent.

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

GLOSSARY

This glossary contains terms used in this prospectus in connection with us. As such, these terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“API”	active pharmaceutical ingredients
“GAP”	Good Agricultural Practice (良好農業規範)
“GMP”	Good Manufacturing Practice of Pharmaceutical Products (藥品生產質量管理規範)
“GSP”	Good Supply Practice for Pharmaceutical Products (藥品經營質量管理規範)
“Maximum Low-Price”	a mutually agreed price no higher than the maximum retail prices allowed based on the current dosage instruction in accordance with the Circular of the National Development and Reform Commission on Issues Concerning Improving Price Management of Low-Price Drugs
“National Essential Medicine List”	The National Essential Medicine List (2012 Edition) (《國家基本藥物目錄(2012年版)》) issued by the MOH on March 13, 2013
“National Insurance Medicines Lists”	Medicines List for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2017 Edition) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2017年版)》) issued by the Ministry of Human Resources and Social Security on February 21, 2017
“OTC medicines”	over-the-counter medicines, referring to over-the-counter medicine products that do not require prescription in the context of pharmaceutical industry
“PCM”	proprietary Chinese medicine
“Shuanghuanglian”	a Chinese medicine formula primarily for the treatment of cold
“URTI”	upper respiratory tract infections
“Wind-heat cold”	a Chinese medicine term, meaning common cold with wind-heat syndrome, including sore throat, running nose and higher body temperature

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. All statements other than statements of historical fact contained in this prospectus, including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would” and similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, without limitation, the risk factors set forth under the section headed “Risk Factors” in this prospectus and the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our business strategies and plans to achieve these strategies;
- general economic, political and business conditions in the markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- the effects of the global financial markets and economic crisis;
- our ability to reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation 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. We caution you not to place undue reliance on any forward-looking statements or information.

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

All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

RISK FACTORS

You should carefully read and consider all of the information in this prospectus including the risks and uncertainties described below before deciding to make any investment in our Shares. Our business, financial condition or results of operations could be materially adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties. As a result, you may lose part or all of your investment.

RISKS RELATING TO OUR BUSINESS

We currently depend on the sales of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections.

We currently depend on the sales of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections. In 2015, 2016 and 2017, sales of Shuanghuanglian Oral Solutions represented approximately 50.1%, 61.5% and 56.9% of our revenue, respectively, and sales of Shuanghuanglian Injections represented approximately 29.6%, 20.1% and 20.5% of our revenue, respectively. Sales of these two products, in aggregate, represented approximately 79.6%, 81.6% and 77.4% of our revenue, respectively, for the same periods.

We expect that the sales of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections will continue to comprise a substantial portion of our revenue in the near future. Our business will therefore remain sensitive to the sales volume and pricing of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections. Sales volume and pricing of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections could be materially and adversely affected in the event that other pharmaceutical products manufacturers produce similar products or products having comparable or better efficacy, or produce products which may be used as direct or indirect substitutes for these products, and such products are launched in the PRC market at prices comparable to, or lower than, our prices. Sales volume and pricing of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections could also be impacted by government regulations. In addition, the pricing of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections can also affect the sales volume of these products. For example, we experienced lower sales volume of Shuanghuanglian Oral Solutions in 2017 as a result of the wholesale price increases in 2016 and 2017. If we are unable to maintain our current sales volume and/or pricing of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections, our business, financial condition and results of operation may be materially and adversely affected.

If we or our brand names fail to maintain a positive reputation, our business could be adversely affected.

Our success depends on our well-known corporate and product brands in many aspects of our business, including:

- to gain access to, and for our products to be perceived favorably by the hospitals, clinics, medical institutions and medical practitioners which drive demand for PCM and other western medicines in the PRC;
- to effectively work with the authorities that regulate various aspects of our business;
- to gain the trust of medical practitioners and patients in our products;

RISK FACTORS

- to attract employees, distributors, logistics service providers and external research partners to work with us; and
- to increase market share of our products through brand recognition.

However, we cannot assure you that we will be able to maintain a positive reputation or brand name. Our reputation and brand names may be adversely affected by a number of factors, many of which are beyond our control, including:

- adverse associations with our products, including with respect to their efficacy or side effects;
- the effects of counterfeit products purporting to be our products;
- improper use of our brand name by the distributors and drugstore chains that we collaborate with;
- lawsuits and regulatory investigations against us or otherwise relating to our products, the PCM industry or pharmaceutical industry in general; and
- improper or illegal conduct by our employees, distributors and logistics service providers, whether or not authorized by us.

Moreover, negative publicity or disputes regarding our products, regulatory compliance, operations or management, whether founded or unfounded, could materially and adversely affect public perception of our brand. If we or our brand name fail to maintain a positive reputation as a result of these or other factors, our products may be perceived unfavorably by hospitals, clinics, medical institutions, medical practitioners, regulators and patients, as well as existing and potential employees, distributors, logistics service providers and external research partners, and our business and business prospects could be adversely affected.

Our efforts to increase our market share in our target markets may not be successful.

We intend to increase penetration and introduce new products in our target markets in the PRC in order to increase our market share and product sales. We may not have sufficient experience to operate in our target markets and could face considerable challenges in our expansion, including, among others:

- shortage of personnel with necessary technical capabilities;
- changes in political, regulatory or economic conditions in the PRC;
- economic slowdown in the PRC;
- decrease in actual market demand for our core products Shuanghuanglian-based cold medicines and other products; and
- greater difficulty in collecting accounts receivables.

RISK FACTORS

Any of the foregoing risks could have a negative impact on our efforts to expand our markets in the PRC, which in turn may materially and adversely affect our business, financial condition and results of operations.

A substantial portion of our revenue was generated from our sales in Henan Province. Any adverse change in the economic, political or social conditions in the region may materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we derived a substantial portion of our revenue from sales in Henan Province. In 2015, 2016 and 2017, revenue derived from Henan Province amounted to approximately RMB125.6 million, RMB152.4 million and RMB164.4 million, representing approximately 34.1%, 34.5% and 36.3% of our total revenue, respectively. Our sales in Henan province may be affected by a number of factors and many of which are beyond our control. Examples of such factors include changes in the laws and regulations governing the pharmaceutical industry as promulgated by the national, provincial or local government, changes in local customer preference and spending patterns, natural disasters or any other adverse change in the economic, political or social conditions. If any of these factors occur, our business, financial condition and results of operations could be materially and adversely affected.

We rely heavily on our distributors for the sales of our products.

In 2015, 2016 and 2017, approximately 97.0%, 95.9% and 96.2% of our total revenue was generated from the sales to our distributors. We therefore rely heavily on distributors for the distribution of our products. There is no assurance that (i) we will not lose any of our distributors in the future; or (ii) we are able to renew the distribution agreements with our distributors on favorable terms or at all; or (iii) our distributors will continue to place orders with us; or (iv) their future orders will remain at a comparable level or on similar terms as in prior years. These events may occur if we fail to maintain good business relationships with them or they switch to purchase similar products from other pharmaceutical companies, which are capable of providing them with more preferential selling terms and arrangements (such as annual rewards). In particular, we raised the wholesale price of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections in 2016, leading to a decrease in the order volume from our distributors in January and February 2017, which in turn resulted in a decrease in our revenue as compared with the corresponding period in 2016. There can be no assurance that our distributors will not reduce their order when we raise our price again in the future. If such event recurs or any of the events listed above occurs or if we are unable to identify and appoint additional or replacement distributors or drugstore chains on a timely basis, our financial condition and results of operation could be adversely affected.

We have limited control over our distributors.

We enter into distribution agreements with our distributors, whereby we can manage their sales of our products, in respect of, inter alia, geographical coverage, minimum selling price and sales target through the terms of distribution agreements. However, we cannot assure you that these distributors will comply with our contractual terms at all times. If any of them distributes our products outside our designated territories or below our specified minimum sales price, our business, financial condition and results of operations could be adversely affected.

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Historically, we sold our products without an annual distribution agreement, primarily to certain distributors who have small purchase volume or are phasing in or out of our distribution network, including new distributors with little or no previous experiences or distributors with diminishing procurement volume. While such distributors are subject to the same supervision and management measures from us, we cannot assure you that such distributors will follow our management measures at all time. In the event that our products are distributed outside the regions as agreed with us or if such distributors fail to follow other management measures, it may result in potential competition with other distributors and our business, financial condition and results of operations could be adversely affected.

If we fail to maintain or increase our marketing activities and capabilities, our market share and our business, financial condition and results of operation may be materially and adversely affected.

The success of our products depends on our marketing efforts. However, there is no assurance that our current and planned spending on marketing activities will be adequate to support our future growth. In 2015, 2016 and 2017, our selling and distribution expenses were RMB63.6 million, RMB74.2 million and RMB90.7 million, respectively, representing approximately 17.3%, 16.8% and 20.0% of our total revenues for the same periods. Any factors adversely affecting our ability to maintain or increase our marketing activities and capabilities may have an adverse effect on the market share of our products and the brand name and reputation of our products, which may result in decreased demand for our products and may materially and adversely affect our business, financial condition and results of operation.

To promote our products, we place targeted advertisements on mass media as well as specialized academic periodicals from time to time. In addition, we sell and distribute the substantial majority of our products through our extensive distribution network in the PRC that is supervised by 257 sales representatives as of December 31, 2017. See “Business — Sales and Distribution” for further details. We must hire and retain sales representatives with marketing expertise and industry knowledge to maintain and continue to develop business opportunities. There is no assurance that we will continue to be able to recruit and/or retain suitable sales representatives in the future.

We rely on a stable supply of quality raw materials to manufacture our products, and a decrease in the supply, or an increase in the cost, of these raw materials could materially and adversely affect our business, financial condition and results of operations.

Our principal raw materials are medicinal herbs, the purchase cost of which account for a significant portion of our total costs of sales. In 2015, 2016 and 2017, our costs of raw materials, mainly consisted of medicinal herbs, were RMB78.0 million, RMB92.9 million and RMB83.7 million, respectively, representing approximately 39.9%, 42.3% and 41.7% of our total cost of sales for the same periods. The availability and market prices of our major raw materials, such as medicinal herbs may be adversely affected by factors beyond our control, such as weather conditions, natural disasters or a sudden surge in demand. In addition, during the Track Record Period, we purchased the substantial majority of our raw materials from third-party suppliers. As a result, we are also vulnerable to price fluctuations and supply shortages resulting from any speculating or price manipulation activities engaged by these suppliers.

We cannot assure you that our suppliers will continue to supply materials to us on terms and conditions commercially acceptable to us in the future. In addition, we cannot assure you that we will be able to pass on any increase in raw material costs to our customers. Significant increases in raw material

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prices would have a direct and negative impact on our gross margin. Ultimately, we may need to raise our product prices to recover the higher raw material costs and maintain our gross margins, which may lead to lower customer demand for our products. If we are unable to pass increases in our raw materials costs to our customers, our gross margins and profitability would be adversely affected.

In addition, as part of our efforts to gain control of and improve the quality and stability of our raw materials supply, we also source a portion of our medicinal herbs from a connected party, Fusen Chinese Medicine. In 2015, 2016 and 2017, the medicinal herbs we purchased from Fusen Chinese Medicine amounted to RMB5.9 million, RMB26.9 million and RMB23.8 million, respectively. See “Connected Transactions — Non-exempted Continuing Connected Transactions — Purchase of medicinal herbs from Fusen Chinese Medicine” for further details. While we maintain a mutually beneficial relationship with Fusen Chinese Medicine, we cannot assure you that our relationship with Fusen Chinese Medicine will continue and supply from Fusen Chinese Medicine will not experience any disruptions in the future. As a result of these factors, we cannot assure you that our raw materials procurement strategy will be successful.

We may incur higher cost of sales as a result of change in energy policy in China.

Starting in the fourth quarter of 2017, the PRC government strictly restricts the use of coal in industrial activities and promotes the use of natural gas instead. As a result, we may experience increase in manufacturing overhead to the extent the cost of natural gas increases significantly. Historically, we used coals to produce steam in our production process, and we subsequently switched to natural gas in response to such new restrictions. While the PRC government currently subsidizes the use of natural gas, the price of natural gas can be higher than the price of coal. As a result, there can be no assurance that we will not incur higher manufacturing overhead in the future.

We may not be able to continue to fully comply with applicable GMP or other regulatory requirements or renew our GMP certifications and other permits and licenses which are material to our business.

We are required to obtain certain permits and licenses from PRC governmental authorities, including GMP certifications for the manufacture of PCM and western medicines in all dosage forms from the CFDA. See “Regulations — Manufacture — Pharmaceutical products’ manufacturing” for details regarding certain key permits and licenses relating to our business operations in general. Our GMP and other required permits and licenses, however, are subject to periodic renewal and/or reassessment by the relevant government authorities which may result in substantial compliance burdens and additional costs on our business. The relevant government authorities may also conduct regular on-site inspections and examinations as part of the process of maintaining or renewing such permits, licenses and certifications.

While we have successfully passed the relevant inspections and renewed our GMP certifications and other required licenses and permits in the past, the standards of such renewal or reassessment may change from time to time. We cannot assure you that we will be able to continue to successfully pass all required inspections and timely renew all of these permits, licenses and certifications. Any inability to renew any permits, licenses or certifications that are material to our operations could severely disrupt, as well as prevent us from conducting, our business. Furthermore, if any interpretation or implementation of the relevant regulations or new regulation requires us to obtain additional permits, licenses or

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certifications, we cannot assure you that we will be able to successfully obtain them. Even if we obtain such permits, licenses or certifications, there may be significant additional costs and expenses involved, which may adversely affect our results of operations.

Our production facilities are located at one single location, and any operational breakdowns, natural disaster or other event affecting these facilities may disrupt our business.

We produce all products at our modern production facilities located at Xichuan County, Henan Province. Our production facilities face the risk of operational breakdowns caused by accidents during the operating process, including but not limited to faulty construction and operational error. In the event of an earthquake, fire, drought, flood and/or any other natural disaster, political instability, extended outages of critical utilities or transportation systems, terrorist attack, or other event beyond our control that limits our ability to operate these facilities, we may need to incur substantial additional expenses to repair or replace the damaged production equipment or facilities, or even evacuate the current premises and relocate our production facilities to an alternative location. We may also have to outsource part or all of our production operations. Any interruption in, or prolonged suspension of any part of production at, or any damage to or destruction of, any of our production facilities arising from operational breakdowns, unexpected or catastrophic events or otherwise may prevent us from supplying products to our customers, which in turn may adversely affect our business and operations.

Further, our production is subject to risks such as theft, machinery breakdown, defective equipment and shortage of water and fuel, any of which could severely disrupt our operations. We cannot assure you that our insurance will adequately compensate us for any loss arising from damage to our facilities or disruptions to our operations. Any such losses could materially and adversely affect our business, financial condition and results of operations.

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

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

Pursuant to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), which was promulgated by the Standing Committee of the National People's Congress on September 20, 1984 and came into effect on July 1, 1985, as last amended and came into effect on April 24, 2015, the Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated on February 22, 1993 and became effective from September 1, 1993 by the Standing Committee of the National People's Congress, as amended on July 8, 2000 and August 27, 2009, and the Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》), which was promulgated on October 31, 1993 and became effective on January 1, 1994 by the Standing Committee of the National People's Congress, as amended on August 27, 2009 and October 25, 2013, and other

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relevant laws and regulations, should our own-branded products lead to any injury, death or property damage due to product defects, we may be subject to confiscation of illegal gains, fines, suspension of operation, revocation of business licenses and drug manufacturing certificates and criminal liability if a crime is constituted, which could have a material adverse effect on our reputation and brand value, and in turn materially and adversely affect our business, financial condition and results of operations. For details of the relevant laws and regulations governing our business, see “Regulations” for further details.

If our products cause, or are perceived to cause, severe side effects, our revenues and profitability could be adversely affected.

Our products, especially our PCM injection products, may cause severe side effects as a result of a number of factors, many of which are outside of our control. These factors include potential side effects not revealed in clinical testing, unusual but severe side effects in isolated cases, defective products not detected by our quality management system or misuse of our products by patients. Our products may also be perceived to cause severe side effects even without a conclusive determination as to the cause of the severe side effects.

In addition, our products may be perceived to cause severe side effects if other companies’ products containing the same or similar ingredients or raw materials as our products cause or are perceived to have caused severe side effects, or if one or more regulators, such as the CFDA determines that products containing the same or similar ingredients as our products could cause or lead to severe side effects.

If our products cause, or are perceived to cause, severe side effects, we may face a number of consequences, including:

- injury or death of patients;
- a severe decrease in the demand for, and sales of, the relevant products;
- the recall or withdrawal of the relevant products;
- removal of regulatory approvals for the relevant products or the relevant production facilities;
- damage to the brand name of our products and our reputation;
- removal of relevant products from the National Insurance Medicines Lists; and
- exposure to lawsuits and regulatory investigation relating to the relevant products that result in liabilities, fines or penalties.

As a result of these consequences, our sales and profitability could be adversely affected.

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

We are exposed to the risks of product liability claims as a result of producing, marketing, promoting and selling pharmaceutical products in the PRC. Such claims may arise when our products are found to be unsafe, ineffective, defective or our product labeling is improper, insufficient or provides inadequate warnings or insufficient or misleading disclosures of side effects. We do not maintain

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product liability insurance. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material sales returns from our distributors or direct sales customers and had not experienced any material customer complaint, product recall and product liability or other legal claims due to problems with the quality of our products. However, we can give no assurance that we will not be subject to any product liability claims in the future. Any claims against us or product recalls may cause significant damages to us. We may also have to spend significant resources and time to defend ourselves if legal proceedings for product liability are brought against us. In such event, our business reputation, financial condition and results of operations could be adversely affected.

Our research and development activities may not result in the successful development of new products, applications of existing products, product formulation, or production methods or techniques.

Our future growth and prospects are dependent on our ability to successfully develop new products, applications of existing products, product formulations, or production methods or techniques, each of which can be affected by many factors beyond our control. These include failure to meet the clinical safety, efficacy or other standards and requirements during testing and clinical trials, or failure to obtain regulatory approvals, including the approvals from the CFDA and provincial food and drug administrations, on time or at all. We conduct research and development activities through both our in-house research and development team and collaborations with external research partners. See “Business — Research and Development” for further details. In 2015, 2016 and 2017, our research and development costs were RMB0.2 million, RMB0.5 million and RMB3.2 million, representing 0.8%, 1.2% and 7.0% of our general and administration expenses for the same periods, respectively. The new product development process is complex, uncertain, time-consuming and costly. If our research and development activities do not result in the successful development of any new products, applications of existing products, product formulation, or production methods or techniques, we will not be able to recover the related costs of such research and development activities and will need to write-off the relevant capitalized development costs, which could materially and adversely affect our financial condition and results of operations.

A new product that appears promising in the early phases of development may fail to reach the market for a number of reasons, such as failure to demonstrate safety and efficacy in preclinical and clinical trials, and failure to obtain approvals for the intended use from relevant regulatory bodies. Even if we successfully develop and launch a new product, we cannot assure you that it will be commercially accepted in the market. The primary factors which may affect the commercial viability of our products include, among others, the product’s advantages and disadvantages as compared to competitors’ products, the product’s cost-effectiveness and the effectiveness of our marketing efforts. Delays in any part of the research, inability to obtain regulatory approval or failure to achieve our projected sales level of the new product, may adversely affect our business, financial condition and results of operations.

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

As of the Latest Practicable Date, we produced, marketed and sold 27 types of pharmaceutical products under our Fusen brand. Furthermore, we had seven projects under research and development. In order to sustain our business growth, we have to remain competitive in the pharmaceutical industry by introducing new products to the market.

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

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

Termination of our collaboration with external research partners or any failure of our research partners to meet our timing and quality standards could increase our research and development costs, delay the research and development process and reduce our efficiency in new product development.

We collaborate with external research institutions in the PRC to jointly carry out research and development of new pharmaceutical products. We have benefited and expect to continue to benefit from the resources, technologies and experience of our research partners through such collaborations. See “Business — Research and Development — Collaboration with External Partners” for further details. These research partners are not, however, our employees and may have other commitments that limit their availability to us. If a conflict of interest arises between their work for us and their work for another entity, we may lose their services. A termination of our collaboration with any of our research partners or failure of our research partners to meet the required quality standards and timetables set forth in their research agreements with us could increase our research and development costs, delay the research and development process and reduce our efficiency in new product development.

In addition, we cannot assure you that we will be able to maintain such relationships or enter into new relationships with suitable research partners. Any deterioration in our existing relationships, misappropriation of research results or failure to enter into other new relationships with suitable research partners on acceptable terms for future research and development projects may have an adverse impact on our ability to successfully develop new pharmaceutical products, which in turn may materially and adversely affect our growth prospects.

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

Our success depends on our ability to protect our intellectual property rights, including trademarks, patents, knowhow and design. In this respect, we rely on registration of trademarks, obtaining patents for our proprietary techniques, knowhow and design and contractual provisions to protect our intellectual property rights. We have certain trademarks, patents and copyrights registered in the PRC and Hong Kong. We had also applied for registration of certain patents in the PRC. For further information of our trademarks and patents, see Appendix IV “— Statutory and General Information — (B) Further Information about Our Business — 2. Intellectual property rights” for further details.

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

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

Litigation to protect our intellectual property rights or defend against third-party allegations of infringement may be costly.

We may encounter future litigation with third parties in order to protect our intellectual property rights. Similarly, we may also encounter future litigation by third parties based on claims that our products or activities infringe the intellectual property rights of others or that we, our employees or consultants have misappropriated the trade secrets of others. It is difficult to predict how such disputes would be resolved. The prosecution and defense of intellectual property rights are costly and will divert technical and management personnel from their normal responsibilities. We may not prevail in any such litigation or proceedings. An adverse decision with respect to any litigation or proceedings against us, resulting in a finding of non-infringement by others or invalidity of our trademarks, may result in the use by third-party companies of brand names, technology or products substantially similar to ours.

In addition, a determination that we have infringed on the intellectual property rights of another may require us to do one or more of the following:

- pay monetary damages to settle the results of such adverse determination, which could adversely affect our business, financial condition and results of operations;

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- cease selling, incorporating or using any of our products that incorporate the challenged intellectual property, which would adversely affect our turnover or costs, or both;
- obtain a license from the holder of the infringed intellectual property right, which might be costly or might not be available on reasonable terms, or at all; or
- redesign our products to make them non-infringing, which would be costly and time-consuming, or may not be possible at all.

As of the Latest Practicable Date, we were not aware of any material actual or threatened claim of infringement. If such a claim is alleged, we cannot assure you that the resolution of the claim would permit us to continue manufacturing the product in question on commercially reasonable terms. In addition, there is a risk that some of our confidential information could be compromised by disclosure during intellectual property litigation. Furthermore, there could be public announcements throughout the course of intellectual property litigation or proceedings as to the results of hearings, motions or other interim proceedings or developments in the litigation. Such public announcements could substantially negatively impact our brand image or corporate reputation, thereby affecting the trading price of our Shares.

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

Certain pharmaceutical products distributed or sold in the pharmaceutical market, particularly in the PRC, may be counterfeit, as these products were manufactured without proper licenses or approvals and fraudulently mislabeled with respect to their content and/or manufacturer. Such counterfeit pharmaceutical products are generally sold at lower prices than authentic products due to their lower production costs, and in some cases are very similar in appearance to the authentic products. Counterfeit pharmaceutical products may or may not have the same chemical content as their authentic counterparts. The regulatory control and enforcement systems with respect to counterfeit pharmaceutical products in the PRC are not able to completely eliminate the manufacture and sale of counterfeit products. Any illegal sale of counterfeit products by others under our brand name may subject us to negative publicity, reputational damage, fines and other administrative penalties or even result in litigation against us. Moreover, from time to time, the appearance of counterfeit pharmaceutical products, products of inferior quality and other unqualified products in the healthcare markets in the PRC may reflect negatively on all pharmaceutical products, pharmaceutical products manufacturers and distributors among medical practitioners, patients and consumers, and may severely harm the reputation and brand names of companies like us.

Furthermore, consumers may buy counterfeit products that are in direct competition with our products. As a result of these factors, the proliferation of counterfeit pharmaceutical products could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to maintain proper inventory levels for our operations.

We consider a number of factors when we manage the inventory levels for our manufacture and sale operations, including the procurement and delivery of various raw materials, our production plan and current prices and price trends of the raw materials. For the years ended December 31, 2015, 2016 and 2017, our average inventory turnover days were 195 days, 172 days and 183 days, respectively.

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While we maintain communication with our distributors and drugstore chains that we collaborate with regarding their inventory level and sales volume, we may nevertheless face difficulty in accurately projecting optimal inventory levels. Inventory levels in excess of the demand of distributors and drugstore chains may result in inventory obsolescence, inventory write-downs or expiration of products. High inventory levels may also require us to commit substantial capital resources, preventing us from deploying for other important business purposes. Conversely, if we underestimate the demand for our products or if our suppliers fail to provide raw materials to us in a timely manner, we may experience inventory shortages. Such inventory shortages might result in unfilled customer orders and have a negative impact on our relationship with distributors and drugstore chains. We cannot assure you that we will be able to maintain proper inventory levels for our operations and such failure may have an adverse effect on our business, financial condition and results of operations.

Our ability to accurately track the inventory levels of our distributors and drugstore chains that we collaborate with is limited, which may make it difficult for us to accurately predict sales trends.

Our ability to accurately track the inventory levels of our distributors and drugstore chains that we collaborate with is limited. Our ability to track such sales and inventory levels mainly relies on our sales representatives and regular communication with distributors and drugstore chains. However, there is no assurance that information on the inventory levels of distributors and drugstore chains can be reported to us accurately or in a timely manner.

Because of our limited ability to regularly track the inventory levels of distributors and drugstore chains, we may be unable to gather sufficient information and data regarding the market acceptance of our products as well as the preferences of medical practitioners and patients in relation to our products. The tracking of inventory levels also would provide useful information as to the market acceptance of our products in a particular region so that we are able to realign our marketing strategy if needed. The failure to accurately track the sales and inventory levels of distributors and drugstore chains may make it difficult for us to accurately predict sales trends, and we may not be able to implement effective marketing or product strategies.

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

Henan Fusen, our principal operating subsidiary, was accredited as a High New Technology Enterprise in 2015. Such accreditation is subject to review and approval by the tax authorities every three years. Under the EIT Law and its relevant regulations, High New Technology Enterprise is conferred with a preferential income tax rate of 15% (reduced from the unified EIT rate of 25% under the EIT Law). Due to the preferential income tax treatment, our income tax expense was reduced by RMB5.1 million, RMB10.8 million and RMB11.2 million in 2015, 2016 and 2017, respectively. The current status of Henan Fusen as a High New Technology Enterprise and the entitlement to the reduced EIT rate will expire in August 2018. There is no assurance that we can obtain approval from the local tax authority to renew such High New Technology Enterprise status or the PRC policies on preferential tax treatments will not change. If Henan Fusen loses such status or such change occurs, the resulting increase in our tax liability would have an adverse effect on our net profits and cash flow. For the impact of the preferential income tax treatment on our results of operations, see “Financial Information — Factors Affecting Our Financial Condition and Results of Operations — Preferential tax treatment” and Note 8(b) to the Accountants’ Report set out in Appendix I to this prospectus for further details.

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

As a reputable pharmaceutical company in Henan, we have been receiving government grants from local government relating to our energy saving equipment modification. For the years ended December 31, 2015, 2016 and 2017, we recognized government grants of approximately RMB0.2 million, RMB0.2 million and RMB0.2 million as our other net income, respectively.

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

We did not contribute to housing provident funds for our employees in the PRC in 2015 and 2016, which may lead to additional contributions, or the imposition of fines and penalties.

In accordance with relevant PRC national labor laws and regulations, we are required to make housing provident fund contributions for the benefit of our employees. In 2015 and 2016, we did not make proper contribution to the housing provident funds, as it is not convenient for most of our employees to contribute to and withdraw the housing provident funds under current laws and regulations, and they are not willing to cooperate in opening housing provident funds account and making relevant housing provident funds contribution. While we have made provision for the unpaid housing provident fund contributions of approximately RMB2.1 million and RMB2.1 million for 2015 and 2016, respectively, the relevant housing provident fund authorities may order our PRC subsidiaries to pay the outstanding amounts. If we fail to do so, the relevant housing provident fund authorities may apply to the relevant PRC court for the enforcement of the unpaid amounts. See “Business — License, Regulatory Approvals and Compliance Record — Payment of Housing Provident Funds” for further details.

Although we have not received any orders to make the payment, we can give no assurance that we will not be subject to such an order in the future.

We have previously engaged in Excess Bill Financing during the Track Record Period and such transactions were not in compliance with relevant PRC laws.

During the Track Record Period, we engaged in Excess Bill Financing with certain PRC commercial banks that involved the issuance of bank acceptance notes without underlying transactions. See “Business — License, Regulatory Approvals and Compliance Record — Bill Financing” for further details. We have started to implement measures to strengthen our internal controls and ceased engaging in any further Excess Bill Financing since June 2015. We settled all the relevant bank acceptance notes on December 15, 2015. However, we cannot assure you that the relevant regulatory authorities will not impose penalties and/or fines on us retroactively for the previous Excess Bill Financing. Any such penalties and/or fines could adversely affect our business, financial condition and results of operations.

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Past performance is not necessarily indicative of future results.

Although our revenue has increased during the Track Record Period, such financial data only reflect our past performance. Past performance is not necessarily indicative of future results. The effects of the changing regulatory, economic and other unpredictable factors may have a material effect on our business and hence affect our future financial performance. Moreover, our financial and operating results may not meet the expectations of public market analysts or investors, which could cause the future price of the Shares to decline. Our revenue, expenses and operating results may vary from period to period in response to a variety of factors beyond our control. You should not rely on our historical results to predict the future performance of our Shares.

In addition, during the Track Record Period, we have experienced a period of rapid growth and there is no assurance that this growth will continue. Moreover, our rapid growth has placed, and continues to place, demands on our management personnel, systems and resources. Assuming our growth continues, there can be no assurance that we will be able to manage it effectively, and failure to do so may have a material adverse effect on our business, financial condition and results of operations.

Moreover, if the quality of any raw materials fails to meet our standards or if any raw materials we source contain defects or harmful substances and we fail to detect such issues, the quality of our products may be compromised. Although our Quality Control department monitors the quality raw materials provided by suppliers in accordance with our stringent quality control standards, we cannot assure you that we will not experience issues with the quality of our raw materials in the future.

Sales of our products are subject to seasonality and our results of operations are subject to fluctuations.

Our business is subject to risks associated with seasonality. Historically, we have experienced higher sales of our Shuanghuanglian-based cold medicines from November to February as compared to the rest of the year. Due to these seasonal factors, sales of our products may fluctuate from period to period, and comparison of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of our performance. In addition, these seasonal consumption patterns may cause our operating results and financial condition relating to sales of our products to fluctuate from period to period.

We may not be able to expand our production capacity and ramp up our operations as anticipated.

We plan to expand the production capacity of our production facilities by establishing a new production facility. We may not be able to obtain all the required permits or licenses for the expansion in a timely manner, or at all. In addition, the expansion may not complete within the anticipated time frame or within budget. Moreover, we may not be able to obtain the necessary approvals and permits in a timely manner, or at all, from the CFDA before we can commence production. We also may not be able to fully utilize the increased production capacity depending on integration of our existing productions and market reactions of such new products. The expansion plan will also increase our depreciation charges. Any substantial increase in costs associated with expanding our production capacity and ramping up our operations, and any material delays, could materially and adversely affect our business, financial condition and results of operations, and may result in lost business opportunities.

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We may not be able to successfully implement our business plans.

The successful implementation of our business strategies depends on a number of factors including, among others, continued growth of the pharmaceutical products market generally and the PCM market in particular, the availability of funds, market competition and relevant government policies. We cannot assure you that our business strategies can be implemented successfully as we have contemplated, or at all. Any delays or failure to successfully implement these business strategies could result in the loss or delayed receipt of revenue, an increase in financing costs or the failure to grow our business. Implementing our business strategies also involves significant expenses, including sales and marketing costs and the cost of acquiring additional property, plant and equipment. Unexpected expenses could prevent us from implementing our business strategies within our budget or at all, which may materially and adversely affect our business, financial condition and results of operations. See “Business — Growth Strategies” and “Future Plans and Use of Proceeds” for details relating to our business plans.

We recorded net current liabilities as of December 31, 2016. There can be no assurance that we will record net current assets in the future.

While we recorded net current assets of RMB139.4 million and RMB20.8 million as of December 31, 2015 and 2017, respectively, we recorded net current liabilities of RMB49.7 million as of December 31, 2016. See “Financial Information — Working Capital” for detailed analysis on our net current liability position. There can be no assurance that we will be able to improve our liquidity and record net current assets in the future. If we continue to record net current liabilities, we may face a deficiency of working capital and may not be able to service short term debts. Any of these events could have a material adverse impact on our business and results of operations.

We may experience difficulty in collecting our trade and other receivables and our liquidity and financial condition and results of operations would be negatively impacted.

We derive our revenues from the sale of products and are subject to counterparty risks such as our customer’s inability to pay. As a result, we had recorded significant amounts of trade and other receivables during the Track Record Period. The credit terms agreed with customers are typically up to three months from the date of billing. As of December 31, 2015, 2016 and 2017, our trade receivables amounted to RMB208.8 million, RMB123.0 million and RMB109.1 million, respectively, including trade debtors of RMB39.9 million, RMB44.7 million and RMB60.2 million. Meanwhile, our trade receivable turnover days in 2015, 2016 and 2017 was 38 days, 33 days and 40 days, respectively. There can be no assurance that we will be able to collect our trade receivables timely, and our trade receivable turnover days may increase, which in turn could materially and adversely affect our liquidity and financial condition.

We consider an amount that is not paid on schedule pursuant to the agreement with us to be past due. As of December 31, 2015, 2016 and 2017, the amounts past due but not impaired of our trade receivables were RMB 5.6 million, RMB5.0 million and RMB10.3 million, respectively, accounting for 2.7%, 4.0% and 9.1% of our total gross trade receivables, respectively. Such receivables relate to independent customers that have a good track record with us, and our management believes that no impairment allowance is necessary in respect of these balances based on our past experience as there has not been a significant change in credit quality and the balances are still considered fully recoverable. However, there can be no assurance that we will be able to collect these past due trade receivables, and

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failure in collection could materially and adversely affect our liquidity and financial condition, and we may record impairment loss as a result. Any significant impairment losses in future periods would have a material and adverse effect on our results of operations.

We may not be able to secure additional funding in the future for our operations or expansion plans.

Our expansion plans may change in light of changing circumstances, the development of our business, unforeseen contingencies or new opportunities. If there is a change of our expansion plans, we may need to obtain additional debt or equity financing. If we are unable to obtain such additional financing on acceptable terms, or at all, we may not be able to expand our business and our operations may be adversely affected. The availability of funding is subject to various factors, some of which are beyond our control, including governmental approvals, prevailing market conditions, credit availability, interest rates and the performance of our business. Our inability to procure additional financing in a timely manner on terms that are satisfactory to us could materially and adversely affect our expansion plans and in turn our business, financial condition and results of operations.

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

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

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

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could have an adverse effect on its overall business sentiment and environment, which in turn may have an adverse impact on domestic consumption and, possibly, on its GDP growth. As substantially all of our revenue is derived from our operations in the PRC, any contraction or slowdown in the growth of domestic consumption or slowdown in the growth of GDP of the PRC may materially and adversely affect our business, financial condition and results of operations. In addition, if our employees are affected by a severe communicable disease, we may be required to take measures to prevent the spread of the disease, which may materially and adversely affect or disrupt our operations, resulting in an adverse effect on our results of operations. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which again, may have a potentially adverse effect on our financial condition and results of operations.

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

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

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

Our success and business operations are dependent on our senior management team and our business and prospects may be severely disrupted if we lose their services.

Our success depends on the continued services of our senior management. In particular, we rely on the pharmaceutical industry-related experience as well as accumulated knowledge and operational expertise of our senior management team. Our ability to attract and retain key personnel, in particular, senior management, is a critical aspect of our competitiveness. Competition for these individuals could require us to offer higher compensation and other benefits in order to attract and retain them, which would increase our operating expenses and, in turn, could materially and adversely affect our financial conditions and results of operations. We may be unable to attract or retain the specialized personnel required to achieve our business objectives, and failure to do so could adversely affect our business. The loss of any of our key employees could severely harm our business. If we lose the services of any senior management, we may not be able to identify suitable or qualified replacements, and may incur additional expenses to recruit and train new personnel, which could disrupt our operations. Furthermore, if any of our executive officers joins a competitor or forms a competing company, we may lose a significant number of our existing customers, which could have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATING TO THE PHARMACEUTICAL INDUSTRY

The pharmaceutical industry is highly fragmented and competitive.

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

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

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

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

Our PCM and other western medicine products follow the same PRC production regulations in terms of licensing and quality and standards as set out in the Chinese Pharmacopeia or Drug Standards for relevant pharmaceutical products. If there are any changes in, or any promulgation of, laws, regulations or standards for PCM and other western medicine products, it may result in the increase in the costs of compliance. If we cannot change our production specifications and/or quality control system for the compliance of any new regulations and/or standards in a timely basis, our business, financial condition and results of operations will be adversely affected.

In recent years, a considerable number of provinces in China have canceled some outpatient intravenous infusion services in response to relevant notifications issued by NHFPC to control the administration of intravenous infusion to outpatient, emergency and inpatient, which resulted in limited access by patients to Shuanghuanglian Injections products. Furthermore, the Ministry of Human Resources and Social Security published the 2017 version of National Insurance Medicines Lists in February 2017, which further limits the coverage of administration of certain PCM injection products, including Shuanghuanglian Injections. Such restrictions on intravenous infusion and the limited insurance coverage on PCM injections have affected and may continue to adversely affect the sales of our Shuanghuanglian Injections products in the future.

In addition, as of the Latest Practicable Date, 18 among the 27 types of medicines we offer were listed in the National Insurance Medicines Lists and six were included in the most recent National Essential Medicine List published in 2012. We cannot assure you that our products will continue to be included in such lists. The exclusion of our products from such lists may adversely affect our business, financial condition and results of operations.

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

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

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

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

We are subject to PRC laws and regulations relating to anti-bribery and anti-corruption. These laws and regulations prohibit companies and their intermediaries from making improper payments to other parties for the purpose of obtaining or retaining business. We have taken measures to regulate the conduct of our marketing representatives and tighten our sales and finance management system for the avoidance of violation of relevant regulations by our employees. See “Business — License, Regulatory Approvals and Compliance Record — Anti-Corruption Compliance” for further details. We cannot assure you that the internal control measures and procedures we implement are sufficient to protect us from violations, if any, committed by our employees or other parties with whom we have a business relationship. If our employees or other parties are found or alleged to be in violation of anti-corruption regulations, we may face or be involved in fines, lawsuits, loss of permits and licenses, closure of pharmacies, and loss of key personnel, as well as damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the economic, political and social conditions in the PRC could adversely affect our business, financial condition and results of operations.

All of our assets are located, and substantially all of our revenue is derived from our operations, in the PRC. Accordingly, our business, financial condition and results of operations are, to a large extent, subject to the economic, political and social conditions in the PRC.

The economy of the PRC differs from the economies of most developed countries in many aspects, including but not limited to the amount and degree of the PRC government's involvement, the growth rate and level of development, the uniformity in implementation and enforcement of laws, the control of foreign exchange and the allocation of resources. The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. The PRC economy has grown significantly in recent decades, though we cannot assure you that this growth will continue at the same pace, or at all. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in the PRC economic, political or social conditions and the PRC laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and we expect them to be changed over time. Other political, economic and social factors may also lead to further adjustments of the PRC government's reform measures. Our business, prospects and results of operations may be materially and adversely affected by policies of the PRC government, such as measures to control inflation and to tighten its monetary policies, and changes in the rates or methods of taxation. These actions, as well as future actions and policies of the PRC government, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse effect on our business, financial condition and results of operations.

Our operations are subject to the uncertainties of the PRC legal system and its laws and regulations, which could have a negative effect on our business.

Substantially all of our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes. Unlike in the common law system, prior cases have limited precedential value in deciding subsequent cases in the civil law legal system. Additionally, PRC written statutes are often principle oriented and require detailed interpretations by the enforcement bodies for their application and enforcement. When the PRC government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate the overall economic order and business practices of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving foreign investment, corporate organization and governance, commercial transactions, taxation and trade. However, the promulgation of new laws, changes in existing laws and abrogation of local regulations by national laws may have a negative effect on our business and prospects. Additionally, given the involvement of different

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enforcement bodies of the relevant rules and regulations and the non-binding nature of prior court decisions, the interpretation and enforcement of PRC laws and regulations involve significant uncertainties under the current legal environment.

As a result, there are substantial uncertainties in the legal protection available to us. In addition, such uncertainties, including the inability to enforce the contracts we have entered into with our business partners, customers and suppliers, together with any development or interpretation of laws that are adverse to us, could materially and adversely affect our business and operations. We cannot predict the effect of future developments in the legal system of the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

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

Most of our existing executive officers and senior management members reside within the PRC and all of our assets are located within the PRC. It may not be possible for investors to effect service of process upon us or those persons inside the PRC. In addition, the enforcement of foreign judgments in the PRC involves uncertainty. If there exists a treaty between an overseas jurisdiction and the PRC, or a similar judgment made by a foreign court has been recognized in the PRC before, the judgment made in the foreign jurisdiction might be recognized and enforced in the PRC. However, recognition and enforcement in the PRC of judgments of certain overseas courts in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible. For instance, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts in the United States, Canada, the United Kingdom, Japan or most other western countries.

Fluctuations in the value of the Renminbi and the PRC government's control over foreign currency conversion may adversely affect our business and results of operations and our ability to remit dividends.

Substantially all of our revenue and expenditures are denominated in Renminbi, while the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. Fluctuations in the exchange rates between the Renminbi and the Hong Kong dollars will affect the relative purchasing power in Renminbi terms. Fluctuations in the exchange rates may also cause us to incur foreign exchange losses and affect the relative value of any dividend distributed by us. Currently, we have not entered into any hedging transactions to mitigate our exposure to foreign exchange risk.

Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and the PRC's foreign exchange regime and policy. The PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve certain exchange rate targets and policy goals. From mid-2008 to mid-2010, the Renminbi traded within a narrow range against the U.S. dollar. Since June 2010, the Renminbi has appreciated against the U.S. dollar, from approximately RMB6.83 per U.S. dollar to RMB6.20 per U.S. dollar on June 30, 2015. In August 2015, the PBOC cut the central parity of Renminbi against U.S. dollar by 1.9%, the largest single-day drop in more than 20 years. After more than a 6% decline of Renminbi exchange rates in 2016, Renminbi strengthened by 6.7% in 2017, the sharpest annual appreciation in nine years. We cannot assure you that Renminbi will not fluctuate significantly in value against Hong Kong dollars in

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the future. We will need to convert part of the proceeds denominated in foreign currencies from the Global Offering into Renminbi. The appreciation of the Renminbi against the U.S. dollar or the Hong Kong dollar could reduce the amount of Renminbi that would be available for our use upon conversion of such proceeds to Renminbi. We cannot predict how Renminbi will fluctuate in the future. As a result, the fluctuation in the exchange rate between Renminbi and other currencies could have a material and adverse effect on our business, financial condition and results of operations.

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

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

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

Payment of dividends is subject to restrictions under PRC laws.

Under PRC laws, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or IFRSs, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our shareholders in the future, including periods for which our financial statements indicate that our operations have been unprofitable. Any distributable profits that are not distributed in a given year may be used in other operational purposes or retained and available for distribution in subsequent years. Under the current PRC tax laws, regulations and applicable tax treaties, the payment of dividends to a non-PRC resident shareholder is subject to withholding tax. See “Financial Information — Dividend Policy” for more details of our dividend policy.

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RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares.

Prior to the Global Offering, there has not been a public market for our Shares. An active public market may not develop or be sustained after the Global Offering. The initial Offer Price range for our Shares was the result of, and the Offer Price will be the result of, negotiations among us and the Joint Global Coordinators on behalf of the Underwriters and may not be indicative of prices that will prevail in the trading market after the Global Offering.

We have applied to list and deal in our Shares on the Stock Exchange. However, even if approved, being listed on the Stock Exchange does not guarantee that an active trading market for our Shares will develop or be sustained. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected. As a result, you may not be able to resell your Shares at prices equal to or greater than the price paid for the Shares in the Global Offering.

The market price of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering.

The market price of our Shares may fluctuate significantly and rapidly as a result of a variety of factors, many of which are beyond our control, including:

- actual and anticipated variations in our results of operations;
- changes in securities analysts' estimates or market perception of our financial performance;
- announcement by us of significant acquisitions, dispositions, strategic alliances or joint ventures;
- recruitment or loss of key personnel by us or our competitors;
- market developments affecting us or the pharmaceutical industry;
- regulatory or legal developments, including litigation;
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control;
- fluctuations in trading volumes or the release of lock-up or other transfer restrictions on our outstanding Shares or sales of additional Shares by us; and
- general economic, political and stock market conditions in Hong Kong, China and elsewhere in the world.

Moreover, in recent years, stock markets in general have experienced significant price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of the listed companies. These broad market and industry fluctuations may adversely affect the market price of our Shares.

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Since there will be a gap of several days between pricing and trading of our Offer Shares, the price of our Offer Shares could fall below the Offer Price when the trading commences.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall below the Offer Price when the trading commences as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

Purchasers of Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

Based on the Offer Price range, the Offer Price is expected to be higher than the net tangible book value per Share prior to the Global Offering. Therefore, you will experience an immediate dilution in pro forma net tangible book value per Share. In addition, we may issue additional Shares to raise additional funds, finance acquisitions or for other purposes. If we issue additional Shares or equity-related securities in the future, the percentage ownership of our existing Shareholders may be diluted. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

Our future dividend policy is subject to the discretion of our Directors.

The amount of dividends which we may declare in the future will be subject to the discretion of our Board of Directors depending on our results, working capital, cash position, future operations, profitability, surplus and capital requirements, as well as our general financial condition and any other factors which our Board of Directors may consider to be relevant. Therefore, our historical dividend distributions are not indicative of our future dividend distribution policy.

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

Distribution of dividends shall be formulated by our Board of Directors at their discretion and will be subject to shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits as determined under IFRSs, our Articles of Association, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, and any other factors determined by our Board of Directors from time to time to be relevant to the declaration or suspension of dividend payments. As a result, although we have paid dividends in the past, there can be no assurance whether, when and in what form we will pay dividends in the future or that we will pay dividends in accordance with our dividend policy. See "Financial Information — Dividend Policy" for more details of our dividend policy.

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Sale, or perceived sale, of substantial amounts of our Shares in the public market could adversely affect the prevailing market price of our Shares.

The Shares held by our existing Shareholders are subject to certain lock-up periods expiring six and 12 months after the date on which trading in our Shares commences on the Stock Exchange. See “Underwriting” for further details. Our existing Shareholders may dispose of Shares that they may own now or in the future. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our Shares.

Our interests may conflict with those of one of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public shareholders’ best interests.

Immediately following the Global Offering, one of our Controlling Shareholders will, beneficially own or control 45.05% of our Company’s outstanding shares immediately upon completion of the Global Offering, or approximately 43.40% if the Over-allotment Option is exercised in full. The interests of such Controlling Shareholder may differ from the interests of our other Shareholders. If the interests of such Controlling Shareholder conflict with the interests of our other Shareholders, or if such Controlling Shareholder cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, the non-controlling shareholders could be disadvantaged by the actions that our Controlling Shareholder choose to cause us to pursue.

One of our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, privatizations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Such Controlling Shareholder has no obligation to consider our interests or the interests of our other shareholders. As such, such Controlling Shareholder’s interests may not necessarily be in line with our best interests or the interests of our other Shareholders, which may have a material and adverse effect on our business operations and the price at which our Shares are traded on the Stock Exchange.

Facts and statistics in this prospectus relating to the PRC economy and the industry in which we operate may not be fully reliable, and statistics in the prospectus provided by Frost & Sullivan are subject to assumptions and methodologies set forth in the “Industry Overview” section of this prospectus.

Facts and statistics in this prospectus relating to China and the industry in which we operate, including those relating to the PRC economy and the pharmaceutical industry in China, are derived from various publications of governmental agencies or industry associations, or an industry report prepared by Frost & Sullivan and commissioned by us. We cannot guarantee, however, the quality or reliability of these materials. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers or any other party involved in the Global Offering and no representation is given as to its accuracy and completeness. Investors should not place undue reliance on such facts or statistics.

INFORMATION ABOUT THIS PROSPECTUS

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 our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus. Our 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.

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 authorized 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 authorized by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisors 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 Joint Global Coordinators (on behalf of the Hong Kong Underwriters) agreeing on the Offer Price. An International Underwriting Agreement relating to the International Offering is expected to be entered into on or around July 4, 2018, subject to the Offer Price being agreed. The Global Offering is managed by the Joint Global Coordinators.

If, for any reason, the Offer Price is not agreed among us and the Joint Coordinators (on behalf of the Hong Kong Underwriters), the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please see 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.

INFORMATION ABOUT 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 entitled “How to Apply for Hong Kong Offer Shares” 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 STABILIZATION

Details of the arrangements relating to the Over-allotment Option and stabilization 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 authorized 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 authorization 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 Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of the options which may be granted under the Share Option Scheme).

Save as disclosed in this prospectus, no part of our 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 Shares on the Stock Exchange are expected to commence on Wednesday, July 11, 2018. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares will be 1652.

INFORMATION ABOUT THIS PROSPECTUS

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our 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 advisor 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.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal share registrar, Eстера Trust (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

All Offer Shares will be registered on the Hong Kong register of members of our Company in Hong Kong. Dealings in the Shares registered on our Hong Kong register of members 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 Shares. In addition, a fixed duty of HK\$5 is charged on each instrument of transfer (if required).

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors 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 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, our Shares.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, of Renminbi amounts into U.S. dollars and of Hong Kong dollars into U.S. dollars at specified rates.

Unless we indicate otherwise, the translation of Renminbi into Hong Kong dollars, of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars, and vice versa, in this prospectus was made at the following rate:

INFORMATION ABOUT THIS PROSPECTUS

RMB0.81835 to HK\$1.00 (being the prevailing exchange rate on June 19, 2018 set by the People's Bank of China)

No representation is made that any amounts in Renminbi, Hong Kong dollars or U.S. 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.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong.

Our business and operation, including the manufacturing, sale, research and development of PCM cold medicines, are primarily located, managed and conducted in Henan Province, the PRC. It would be impracticable and commercially unnecessary for us to relocate an additional executive Director to Hong Kong. As each of our executive Directors currently residing in the PRC has a vital role in our business and operations, it is of paramount importance for them to continue to be based in the PRC and physically close to our operation. Relocation of our executive Directors to Hong Kong will require time to process the application for residency in Hong Kong and the application will be burdensome and costly for our Company. Moreover, it may not be in the best interest of our Company and Shareholders as a whole to appoint an additional executive Director who is ordinarily resident in Hong Kong for the sole purpose of satisfying the management presence requirements as such arrangement will increase our administrative expenses and reduce the effectiveness and responsiveness of the Board in making decisions. Our Company currently only has one executive Director, Mr. Cao Dudu, who is ordinarily resident in Hong Kong. However, in the foreseeable future, our Company will not have two executive Directors who are ordinarily resident in Hong Kong. Therefore, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Listing Rules on the following conditions:

- (1) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that we will comply with the Listing Rules at all times. The two authorized representatives are Mr. Cao Dudu, our executive Director and the chief executive officer of our Company, and Mr. Leung Wai Fung Joseph, our company secretary. Mr. Cao Dudu and Mr. Leung Wai Fung Joseph are ordinarily resident in Hong Kong and each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the authorized representatives is authorized to communicate on our behalf with the Stock Exchange. Mr. Cao Dudu has also been authorized to accept service of process and notices in Hong Kong on behalf of our Company.
- (2) Each of the authorized representatives has means to contact all of our Directors (including our independent non-executive Directors) and all members of our senior management promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. To enhance communication between the Stock Exchange, the authorized representatives and our Directors, we will implement a policy that (a) each Director will have to provide his or her mobile telephone number, office telephone number, fax number and email address (where available) to our authorized representatives; (b) in the event that a Director expects to travel or is out of office, he or she will endeavor to provide the telephone number of the place of his or her accommodation to the authorized representatives or maintain an open line of communication via his or her mobile telephone; and (c) each of the

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Directors and authorized representatives shall provide his or her mobile telephone numbers, office telephone numbers, fax numbers and email addresses (where available) to the Stock Exchange.

- (3) Each of our Directors (including our independent non-executive Directors) who is not an ordinary resident in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong for business purpose and will be able to renew such travel documents when they expire such that he or she will be able to meet with the relevant officers of the Stock Exchange within a reasonable period of time, when required.
- (4) In compliance with Rule 3A.19 of the Listing Rules, we have appointed Dakin Capital as our compliance advisor to act as an additional channel of communication with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. The contact person of the compliance advisor will be fully available to answer enquiries from the Stock Exchange.
- (5) We will ensure that our compliance advisor shall have access at all times to our authorized representatives, Directors and members of the senior management. We will also procure that such persons provide promptly to our compliance advisor such information and assistance as our compliance advisor may need or may reasonably request in connection with the performance of its duties as set forth in Chapter 3A of the Listing Rules. We will provide to our compliance advisor with the contact details of such persons before the Listing and will promptly inform our compliance advisor any subsequent change(s) thereof. We will ensure that there are adequate and efficient means of communication between us, our authorized representatives, Directors and members of the senior management and our compliance advisor, and will keep our compliance advisor fully informed of all communications and dealings between us and the Stock Exchange.
- (6) In addition to our compliance advisor, whose role and responsibilities after the Listing include informing us on a timely basis of any amendment or supplement to the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to us and providing advice on the continuing requirements under the Listing Rules, we expect to retain a Hong Kong legal adviser to advise on matters relating to the application of the Listing Rules and other applicable Hong Kong laws and regulations after the Listing.

CONTINUING CONNECTED TRANSACTIONS

After the Listing, our Group has entered into and will continue to conduct certain transactions with Fusen Chinese Medicine (a close associate of Mr. Cao Changcheng and a connected person of our Group) for the supply of certain medicinal herbs for production of our Shuenghuanglian-based cold medicine products, and such transactions will constitute non-exempt continuing connected transactions for our Company under the Listing Rules. Such continuing connected transactions are subject to reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, and our Company has applied for waivers from compliance with the applicable requirements under Rule 14A.105 of the Listing Rules and the Stock Exchange has agreed to grant a waiver from strict compliance with the announcement, circular, and independent Shareholders' approval requirements set forth in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further information on such waivers is set forth in the section headed "Connected Transactions" in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Cao Changcheng (曹長城先生)	No. 238, Shizi Road Xichuan County Henan Province China	Chinese
Mr. Hou Taisheng (侯太生先生)	No. 45, No. 250 Shizi Road Xichuan County Henan Province China	Chinese
Mr. Chi Yongsheng (遲永勝先生)	No. 77, No. 96 Renmin Road Guan Town, Xichuan County Henan Province China	Chinese
Ms. Meng Qingfen (孟慶芬女士)	No. 50, No. 9 Building No. 16 Yuantian Road Jinshui District, Zhengzhou City Henan Province China	Chinese
Mr. Cao Dudu (曹篤篤先生)	Flat B, 43/F, South Tower 5 Residence Bel-Air 38 Bel-Air Avenue Island South Hong Kong	Chinese
Non-executive Director		
Mr. Wang Jianhang (王建航先生)	No. 2, Haiying Road Fengtai District Beijing City China	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential Address	Nationality
Independent Non-executive Directors		
Mr. Sze Wing Chun (施永進先生)	Flat B, 21/F, Block 11 Ocean Shores Tseung Kwan O Hong Kong	Chinese
Mr. Shang Lei (尚磊先生)	No. 1002, No. 2 Unit, No. 2 Building, Yuanliuqingyuan Residential Quarter Haidian District Beijing China	Chinese
Mr. Ho Ka Chun (何家進先生)	Flat 03, 19/F, Block B Perfect Mount Garden Shau Kei Wan Hong Kong	Chinese

Further information about the Directors and other senior management members are set out in the section headed “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

Sole Sponsor

**China Securities (International) Corporate
Finance Company Limited**

18/F Two Exchange Square
8 Connaught Place
Central

Hong Kong

Core project team:

Mr. Liang Jianhong (CE Reference No: AYS243)

Mr. Qin Xuan (CE Reference No: BBH921)

Mr. Hu Boyu (CE Reference No: BET781)

Mr. Wang Yizhou (CE Reference No: BIE387)

Joint Global Coordinators

**China Securities (International) Corporate
Finance Company Limited**

18/F Two Exchange Square
8 Connaught Place
Central

Hong Kong

ABCI Capital Limited

11/F, Agricultural Bank of China Tower
50 Connaught Road Central

Hong Kong

Bluemount Securities Limited

Room 2403-05, Jubilee Centre
18 Fenwick Street

Wan Chai

Hong Kong

Joint Bookrunners

**China Securities (International) Corporate
Finance Company Limited**

18/F Two Exchange Square
8 Connaught Place
Central

Hong Kong

ABCI Capital Limited

11/F, Agricultural Bank of China Tower
50 Connaught Road Central

Hong Kong

Bluemount Securities Limited

Room 2403-05, Jubilee Centre
18 Fenwick Street

Wan Chai

Hong Kong

Dongxing Securities (Hong Kong) Company Limited

6805-6806A, International Commerce Centre
1 Austin Road West

Kowloon

Hong Kong

Head & Shoulders Securities Limited

Room 2511, 25/F, Cosco Tower
183 Queen's Road Central

Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

GF Securities (Hong Kong) Brokerage Limited
29–30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Joint Lead Managers

**China Securities (International) Corporate
Finance Company Limited**
18/F Two Exchange Square
8 Connaught Place
Central
Hong Kong

ABCI Securities Company Limited
10/F, Agricultural Bank of China Tower
50 Connaught Road Central
Hong Kong

Bluemount Securities Limited
Room 2403–05, Jubilee Centre
18 Fenwick Street
Wan Chai
Hong Kong

Dongxing Securities (Hong Kong) Company Limited
6805–6806A, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Head & Shoulders Securities Limited
Room 2511, 25/F, Cosco Tower
183 Queen's Road Central
Hong Kong

GF Securities (Hong Kong) Brokerage Limited
29–30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Reporting Accountants

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisers to the Company

As to Hong Kong law:

D. S. Cheung & Co.

29/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

As to PRC law:

Commerce & Finance Law Offices

6/F, NCI Tower

A12 Jianguomenwai Avenue

Chaoyang District

Beijing, PRC

As to Cayman Islands law:

Appleby

2206–19 Jardine House

1 Connaught Place

Central

Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to the Sole Sponsor and the Underwriters	<i>As to Hong Kong law:</i> Simpson Thacher & Bartlett ICBC Tower, 35/F 3 Garden Road Central Hong Kong <i>As to PRC law:</i> Tian Yuan Law Firm 10F China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing 100032, PRC
Industry Consultant	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1018, Tower B No. 500 Yunjin Road Xuhui District Shanghai, 200232, China
Compliance Advisor	Dakin Capital Limited Room 2701, 27/F, Tower 1 Admiralty Centre 18 Harcourt Road, Admiralty Hong Kong
Internal Control Consultant	Protiviti Shanghai Co., Ltd. Unit 2618-38, Central Plaza No. 381 Huai Hai Zhong Road Huangpu District Shanghai 200020 China
Receiving Bank	Wing Lung Bank Limited 45 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered office in the Cayman Islands	PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in China	Urban Industrial Zone Xichuan County, Henan Province China (中國河南省淅川縣城區工業園區)
Place of business in Hong Kong registered under Part 16 of the Companies Ordinance	29/F, Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Company Secretary	Mr. Leung Wai Fung Joseph (Certified Public Accountant) Flat E, 2/F, Block 9 Yee Ngar Court, South Horizons 9 South Horizons Drive Ap Lei Chau Hong Kong
Authorized Representatives	Mr. Cao Dudu Flat B, 43/F, South Tower 5 Residence Bel-Air 38 Bel-Air Avenue Island South Hong Kong Mr. Leung Wai Fung Joseph (Certified Public Accountant) Flat E, 2/F, Block 9 Yee Ngar Court, South Horizons 9 South Horizons Drive Ap Lei Chau Hong Kong

CORPORATE INFORMATION

Members of Audit Committee	Mr. Sze Wing Chun (<i>Chairman</i>) Mr. Ho Ka Chun Mr. Shang Lei
Members of Remuneration Committee	Mr. Shang Lei (<i>Chairman</i>) Mr. Cao Changcheng Mr. Ho Ka Chun
Members of Nomination Committee	Mr. Cao Changcheng (<i>Chairman</i>) Mr. Ho Ka Chun Mr. Shang Lei
Cayman Islands Principal Share Registrar and Transfer Office	Estera Trust (Cayman) Limited PO Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
Principal Bankers	Wing Lung Bank Ltd. 45 Des Voeux Road Central, Hong Kong Bank of Pingdingshan Co., Ltd. Zhengzhou Branch 1st Floor, Bank of Pingdingshan Building No. 6 Fung Yi Road Jinshui District, Zhengzhou City Henan Province China China Construction Bank Corporation Xichuan Branch Middle Section, Jiefang Road Chengguan Town, Xichuan County Henan Province China
Company’s Website	www.fusenyy.com

INDUSTRY OVERVIEW

The information and statistics set forth in this section and elsewhere in this prospectus have been derived from various official and government publications, publicly available market research sources and from the market research report prepared by Frost & Sullivan, which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate and we 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 Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, any other party involved in the Global Offering or any of our or their respective directors, officers, representatives, affiliates or advisers and no representation is given as to its correctness, accuracy and completeness. Certain information and statistics included, including those excerpted from official and government publications and sources in China, may not be consistent with other information and statistics compiled within or outside China by third parties. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the Frost & Sullivan Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

SOURCE OF INFORMATION

In connection with the Global Offering, we have engaged Frost & Sullivan, an independent third party, to conduct a study of the cold medicine market in China. Frost & Sullivan, is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990's. Frost & Sullivan has four offices in China and direct access to the most knowledgeable experts and market participants in the pharmaceutical industry and its industry consultants, on average, have more than five years of experience.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe such information facilitates an understanding of the PCM cold medicine market for prospective investors. The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included secondary research and primary interviews. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from Chinese government agencies, and market research on industry and enterprise player information issued by our chief competitors. Primary interviews were conducted with relevant institutions to obtain objective and factual data and prospective predictions. Frost & Sullivan considered the source of information as reliable because (i) it is general market practice to adopt official data and announcements from various Chinese government agencies; and (ii) the information obtained from interviews is for reference only and the findings in this report are not based on the results of these interviews. Frost & Sullivan has proven track records in providing market research studies to government and private clients in the regions where the Frost & Sullivan Report covers. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain a steady growth in the next decade; (ii) China's social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of the cold medicine market; and (iii) there is no war or large scale disaster during the forecast period.

We have agreed to pay Frost & Sullivan a fee of RMB1,000,000 for the preparation of the Frost & Sullivan Report, which we believe is in line with the market rate for such a report. As of the Latest Practicable Date, we have paid RMB650,000 of this fee. The balance of the fee is not contingent upon the completion of the Global Offering.

INDUSTRY OVERVIEW

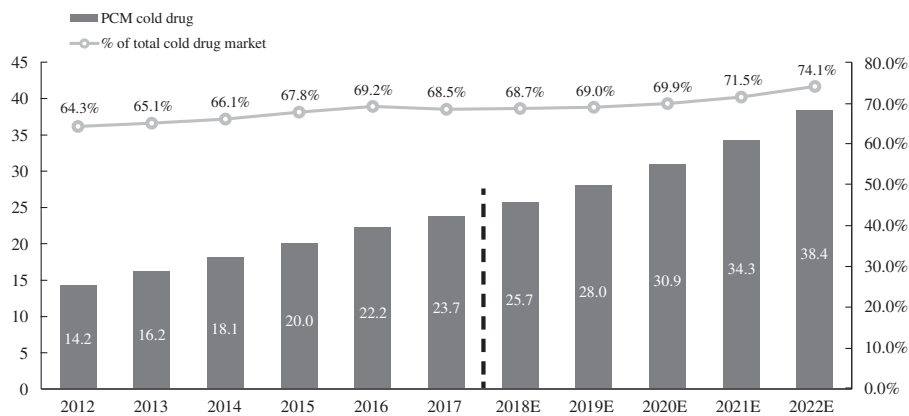
ANALYSIS OF PCM COLD MEDICINE MARKET IN CHINA

Market Size and Growth Trend

According to the Frost & Sullivan Report, PCM cold medicine market is the largest segment in the entire cold medicine market in China, constituting approximately 68.5% of the entire cold medicine market in China in 2017 in terms of wholesale value.

The PCM cold medicine market in China grew at a CAGR of 10.8% from RMB14.2 billion in 2012 to RMB23.7 billion in 2017, outgrowing the entire cold medicine market in China. According to the same report, the PCM cold medicine market in China is expected to continue to grow at a CAGR of 10.1% from RMB23.7 billion in 2017 to RMB38.4 billion in 2022. Moreover, PCM cold medicine market as a percentage of the entire cold medicine market in China grew from 64.3% in 2012 to 68.5% in 2017 and is expected to continue to grow at a steady rate in the next five years as a result of the increasing awareness of side effects of western medicines and patients become more inclined to use PCM products to treat cold as such products are perceived to be safer, especially for long term use.

Historical and Forecasted China PCM Cold Medicine Market Size, 2012–2022E



Source: Frost & Sullivan Report

Key Growth Drivers for the PCM Cold Medicine Market in China

According to the Frost & Sullivan Report, the key growth drivers for the PCM cold medicine market in China include the following:

- **Aging population.** According to calculations based on data from the National Bureau of Statistics, China's population ages 65 or above has increased from 131.6 million in 2013 or 9.7% of the entire population, to 158.4 million in 2017, or 11.4% of the entire population. The elder population is more likely to catch cold and need to prevent and treat it due to their vulnerable physical conditions and weakened immune system. Therefore, given the accelerating trend of population aging, demand for cold medicine is expected to continue to grow.
- **Improved awareness of personal health and purchasing power.** PCM cold medicines are mostly sold in retail market. With increased demand for higher quality of life and improved purchasing power of patients due to increasing per capita disposable income, the usage of PCM cold medicines is expected to increase in the future.

INDUSTRY OVERVIEW

- *Modernization of the PCM industry.* With technology advancement in development and production, PCM products have become safer, more effective, feasible for bulk production, and easy for intake (for example, the introduction of oral solutions and granules make PCM intake substantially more convenient than the traditional form of decoction, which require time-consuming preparation process), and therefore provide more options for patients to choose from to treat cold.
- *National policies regulating the chemical cold medicine market.* Effective from September 4, 2012, CFDA issued the Notice on Strengthening the Management of Compound Preparations Containing Ephedrine Alkaloids (關於加強含麻黃鹼類複方製劑管理有關事宜的通知), which places strict selling restriction on compound containing ephedrine alkaloids, including requiring (i) compound preparations containing more than 30mg of ephedrine alkaloids per dose to be sold or bought under medical practitioners' prescriptions, and (ii) retail pharmacies to check the identity of the buyers of compound preparations containing ephedrine alkaloids, to record such buyers' names and national identification numbers, and to sell them at most two minimal packages of such compound preparations except as required otherwise by practitioners' prescriptions. The long-lasting and far-reaching impact of the policy has gradually and continually reduced patients access to such compound. As most chemical cold medicines are compound preparations containing ephedrine alkaloids, market share of PCM cold medicines has increased and is likely to continue to increase as a result of such policies.

Entry Barriers of the PCM Cold Medicine Market in China

According to the Frost & Sullivan Report, the entry barriers of the PCM cold medicine market in China include (i) the substantial capital investment in production facilities and research and development, (ii) compliance with relevant regulations, (iii) difficulty in building up brand recognition, and (iv) competent personnel for research and development and sales and marketing.

Fusen Pharmaceuticals overcame the initial entry barrier by leveraging Mr. Cao Changcheng and our other executive Directors' considerable working and managerial experience in pharmaceutical business sector, particularly Mr. Cao's relationship with distributors, drugstore chains and standalone drugstores that have strong local knowledge and reputation, as well as professionals and prestigious medical and research institutions which were experienced and knowledgeable in pharmaceutical business sector to jump starts its business and rapidly expand the distribution network and research and development capability. Leasing of production facilities from Henan Xichuan Pharmaceutical also enabled Fusen Pharmaceuticals to avoid the hefty capital investment at the beginning of its business.

Key Restraints on the PCM Cold Medicine Market in China

According to the Frost & Sullivan Report, the key restraints on the PCM cold medicine market in China include the following:

- *Competition from chemical cold medicines.* Chemical cold medicines have faster onset of action and stronger effects, and are thus favored by some patients in treating cold. As a result, PCM cold medicines may face strong competition from chemical cold medicines.
- *Highly fragmented market.* The PCM cold medicine market consists of a large number of homogeneous products, which leads to intense competition and low degree of concentration. The fragmentation will cause low efficiency and waste of resources, which impedes the development of PCM cold medicine market in general.

Key National Policies Regulating Cold Medicine Market in China

Effective from September 4, 2012, CFDA issued the Notice on Strengthening the Management of Compound Preparations Containing Ephedrine Alkaloids (關於加強含麻黃鹼類複方製劑管理有關事宜的通知), which places strict selling restriction on compound containing ephedrine alkaloids, including requiring (i) compound preparations containing more than 30mg of ephedrine alkaloids per dose to be sold or bought under medical practitioners' prescriptions, and (ii) retail pharmacies to check the identity of the buyers of compound preparations containing ephedrine alkaloids, to record such buyers' names and national identification numbers, and to sell them at most 2 minimal packages of such compound preparations except as required otherwise by practitioners' prescriptions. The long-lasting and far-reaching impact of the policy has continually reduced patients access to such compound. As most chemical cold medicines are compound preparations containing ephedrine alkaloids, patients are likely to shift to buy PCM cold medicines as opposed to chemical cold medicines.

Moreover, the State Council issued Opinion on Carrying out the Quality and Efficacy Consistency Evaluation of Generic Drugs (國務院辦公廳關於開展仿製藥質量和療效一致性評價的意見) in 2016, which requires pharmaceutical manufacturers to evaluate the quality and efficacy of certain of their generic drugs, failure of which could result in revocation of sales approval. As a result, chemical cold medicines such as ibuprofen tablet/capsule/granule, acetaminophen tablet/granule, and ambroxol hydrochloride tablet/dispersible tablet/granule may gradually exit the market, unless their consistency evaluation are to be completed by the end of 2018. Therefore, expenses on research and development on chemical medicines may be higher.

Future Trends of PCM Cold Medicine Market in China

According to Frost & Sullivan Report, future trends of PCM cold medicine market in China include the following:

- *Increasing reliance on branding and marketing development.* PCM cold medicine market in China is inundated with various drug categories and brands. Customers' decision making process is highly influenced by brand reputation, prescribing habits, advertisement, drug accessibility and recommendation by pharmacist. Therefore, manufacturers is likely to pay more attention on branding and marketing to attract customers and improve customer loyalty.
- *Improving modernization of the industry.* With the strong support from the government and the increasing investment in innovation of PCMs, the research and development capability of PCM manufacturers will be further improved and more new PCMs are under development. It is expected that PCM cold medicines with better efficacy and fewer side effects will be developed and launched into the market.
- *Further product segmentation.* It is widely accepted that usage of medication on children should be different from that on adults. When treating children with cold, one cannot simply reduce the dosage of drug for adults and use it on children. China's PCM market is experiencing a further product segmentation trend in developing PCM cold medicines targeting various age groups.

Competitive Landscape of PCM Cold Medicine Market in China

According to the Frost & Sullivan Report, PCM cold medicine market is highly fragmented, with top 10 market players accounted for approximately 40.1% of the entire market in terms of revenue in 2017. Among the top 10 market players, Guangzhou Pharmaceutical Holdings Limited is the market leader, with a market share of 5.4%, while Fusen ranked eighth, with a market share of 2.9%. In addition, Fusen is the largest market player in the PCM cold medicine market in Henan with a market share of 34.6%, in terms of revenue in 2017.

INDUSTRY OVERVIEW

SHUANGHUANGLIAN-BASED COLD MEDICINE MARKET IN CHINA

Overview

Shuanghuanglian is a modern formula that was first devised in 1960s to treat a variety of infections. It is comprised of the extracts of three herbs: lonicera (金銀花), baikal skullcap root (黃芩), and forsythia (連翹). The combination of forsythia and lonicera is a traditional prescription for treatment of infections. The addition of baikal skullcap root in this formula was one of the later developments, which was based on research on the herb's main active constituent, flavonoid baicalin.

The market for Shuanghuanglian-based cold medicine (including Shuanghuanglian Oral Solutions and Shuanghuanglian Injections etc.) accounted for approximately 8.2% of China's highly fragmented PCM cold medicine market in terms of revenue in 2017 according to the Frost & Sullivan Report. According to the drug registration database of CFDA, there are 21 dosage forms of Shuanghuanglian-based medicine preparations. The table below sets forth major dosage forms of Shuanghuanglian-based medicines on the market. Different dosage forms to treat different types of disease are indicated.

Dosage Form	Route of administration	Medicine type	Indication
Shuanghuanglian Oral Solutions	Oral	OTC	Wind-heat cold (風熱感冒) induced fever, cough, and pharyngalgia
Shuanghuanglian Capsules	Oral	OTC	
Shuanghuanglian Granules	Oral	OTC	
Shuanghuanglian Syrups	Oral	OTC	
Shuanghuanglian Tablets	Oral	OTC	
Shuanghuanglian Suppositories	Rectal	OTC	
Shuanghuanglian Injections	Intravenous	Prescription	Wind-heat cold induced fever, cough, pharyngalgia, upper respiratory infection, pneumonia, amygdalitis, pharyngitis, and other infections caused by viruses or bacteria
Injectable Shuanghuanglian (Lyophilized Powder)	Intravenous	Prescription	Wind-heat cold induced fever, cough, pharyngalgia, URTI, mild pneumonia, amygdalitis with fever, cough or pharyngalgia

Market Size and Growth Trend

According to Frost & Sullivan Report, the market size of Shuanghuanglian-based medicine in China grew at a CAGR of 2.5% from 2012 to 2017 and reached RMB1,942.7 million in 2017. The market size is expected to continue to grow at a CAGR of 10.7% from 2017 to 2022 and is expected to reach RMB3,236.7 million in 2022.

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Advantages of Using Shuanghuanglian-based Medicines in Treatment of Cold

According to the Frost & Sullivan Report, advantages of using Shuanghuanglian-based medicines in treatment of cold include the following:

- *Good efficacy with fewer side effects.* Shuanghuanglian is a commonly used anti-viral and anti-bacterial PCM to treat fever, cough, pharyngalgia, and URTI resulted from wind-heat cold. As a PCM, it has fewer side effects than chemical medicines and, as a compound preparation, Shuanghuanglian-based medicines usually cause less drug resistance than antibiotics.
- *Various available dosage forms.* Shuanghuanglian has been developed into various dosage forms, including oral solution, capsule, granule, tablet and injection, which could be safe, effective and convenient for patient to choose from.
- *Increased awareness of side effects and government regulations on chemical medicines.* As public awareness of side effects of chemical medicines increases, more patients have started to use PCM medicines for cold treatment. Furthermore, the PRC government has published relevant restrictions on usage of antibiotics and compound preparations containing ephedrine alkaloids, which also limited patients' access to such medications.

As a result of the above, according to the Frost & Sullivan Report, Shuanghuanglian-based medicines is expected to continue to substitute the medications under restrictions which are imposed by the PRC government and its overall market share in the PCM cold medicine market in China is expected to continue to grow.

Shuanghuanglian Oral Solutions Market

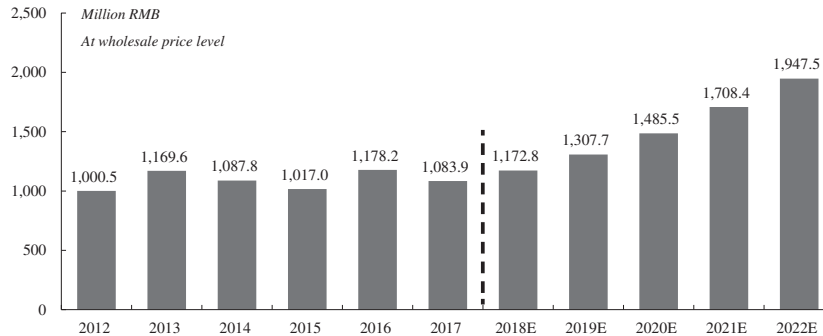
Market Size and Growth Trend

According to the Frost & Sullivan Report, Shuanghuanglian Oral Solutions has the largest market share of approximately 4.6% of the entire PCM cold medicine market in China in terms of wholesale value in 2017. The market size of the Shuanghuanglian Oral Solutions market increased from RMB1,000.5 million in 2012 to RMB1,083.9 million in 2017, representing a CAGR of 1.6%. Since early 2016, leading market players in the Shuanghuanglian Oral Solutions market in China like Talon and Fusen have raised the wholesale price of various packaging types of Shuanghuanglian Oral Solutions several times. These wholesale price hikes resulted in market growth between 2015 to 2016. But the market size decreased from 2016 to 2017, mainly because a large number of distributors increased their orders in 2016 and correspondingly decreased their orders in 2017 in anticipation of wholesale price rises. According to the Frost & Sullivan Report, the Shuanghuanglian Oral Solutions market is expected to grow at a CAGR of 12.4% from 2017 to 2022, and is expected to reach RMB1,947.5 million in 2022

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in light of the tremendous patient pool for cold indication, well-recognized clinical efficacy of Shuanghuanglian Oral Solutions as well as market acceptance of higher prices.

Historical and Forecast Market Size of China Shuanghuanglian Oral Solution Market (2012–2022E)



Source: Frost & Sullivan Report

Key Growth Drivers and Restraints for the Shuanghuanglian Oral Solutions Market in China

According to the Frost & Sullivan Report, Shuanghuanglian Oral Solutions is one of the most recognized PCMs and has been proven to be safe and effective to prevent and treat cold by clinical application in the past 50 years. In official diagnosis and treatment schemes, NHFPC or MOH has recommended Shuanghuanglian Oral Solutions as a PCM medicine to prevent and treat severe flus, which indicates the important market position of Shuanghuanglian Oral Solutions.

According to the Frost & Sullivan Report, the key growth drivers for the Shuanghuanglian Oral Solutions market in China include the following:

- Increasing demand created by large population, especially the aging population, in China and improvement of purchasing power of patients.
- Active marketing and branding initiatives by manufacturers of Shuanghuanglian Oral Solutions.
- Improved product quality due to technology advancement in development and production.

Whereas, according to the Frost & Sullivan Report, the key restraints on the Shuanghuanglian Oral Solutions market in China include the following:

- Intensely competitive and highly fragmented market.
- Competition from other dosage forms.

Shuanghuanglian Injections in the PCM Cold Medicine Market in China

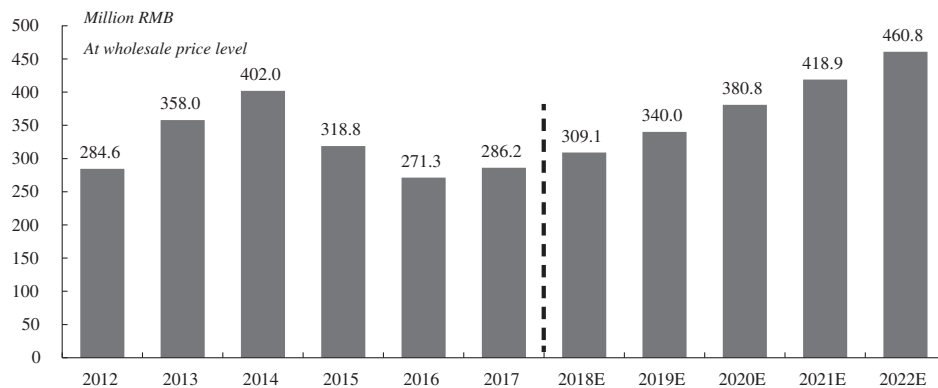
Market Size and Growth Trend

According to the Frost & Sullivan Report, Shuanghuanglian Injections is also an important type of PCM cold medicine with a market share of 1.2% in terms of revenue in 2017 in the entire PCM cold medicine market in China.

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The market size of Shuanghuanglian Injections market in China dropped from RMB402.0 million in 2014 to RMB271.3 million in 2016 as a result of uncertainties in relevant industry policies and safety concerns over PCM injections in general. According to the Frost & Sullivan Report, the Shuanghuanglian Injections market is expected to grow at a CAGR of 10.0% from 2017 to 2022, and is expected to reach RMB460.8 million in 2022, as the product quality of PCM injections is likely to gradually improve in the future as a result of the stringent regulation on such products, which may eliminate safety concerns from practitioners. Good clinical efficacy of Shuanghuanglian Injections for cold treatment may also contribute to the future growth of the products. Due to uncertainties in relevant industry policies and safety concerns over PCM injection in general, the Shuanghuanglian Injections market has experienced a downward trend from 2014 to 2016. However, with stringent regulations such as Safety Re-evaluation of Chinese Medicine Injections (《中藥注射劑安全性再評價》), the product quality of PCM injections is projected to improve gradually. Combined with good clinical efficacy of Shuanghuanglian Injections for cold treatment, the market is projected to grow steadily in the future.

Historical and Forecast Market Size of China SHL Injection Market (2012–2022E)



Source: Frost & Sullivan Report

Key Growth Drivers and Restraints for the Shuanghuanglian Injections Market in China

According to the Frost & Sullivan Report, the key growth drivers for the Shuanghuanglian Injections market in China include the following:

- Large and continuous potential patient pool for such medication.
- Stricter restriction on clinical application of chemical antimicrobial agents in outpatient, emergency and inpatient, which creates market opportunity for Shuanghuanglian Injections as a substitute.
- Improved quality of Shuanghuanglian Injections.

On the other hand, according to the Frost & Sullivan Report, the key restraints of the Shuanghuanglian Injections market in China include:

- NHFPC planned to control the use of intravenous infusion on outpatients, emergencies, and inpatients. A considerable number of provinces have already restricted the application of intravenous infusion in response to NHFPC's notification, which reduces patient's access to Shuanghuanglian Injections.
- Increasing public concerns over the safety of PCM injections.

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Competitive Landscape of Shuanghuanglian-based Cold Medicine Market in China

Overall Market

China's Shuanghuanglian-based cold medicine market grew at a CAGR of 2.5% from 2012 to reach RMB1,942.7 million market in 2017, and is forecasted grow to RMB3,236.7 million in 2022 at a CAGR of 10.7% from 2017 to 2022. The market share of the such medicine relative to the overall cold medicine market was 5.6% in 2017 and is projected to increase steadily in the next five years. The share of Shuanghuanglian-based cold medicine to the overall is expected to reach 6.2% in 2022.

According to the Frost & Sullivan Report, Fusen Pharmaceutical is the market leader in the Shuanghuanglian-based cold medicine market in China in terms of revenue in 2017, with a market share of 33.3%. Fusen Pharmaceutical is the second largest player in the Shuanghuanglian Oral Solutions market with a market share of 35.5%, while it dominates the Shuanghuanglian Injections market with a market share of 91.6%, in terms of wholesale value in 2017.

The table below illustrates the competitive landscape of the Shuanghuanglian-based cold medicine market in China based on total revenues and market shares in 2017:

Ranking	Company	Market Share (%)	Leading products
1	Fusen Pharmaceutical	33.3%	Shuanghuanglian Oral Solutions and Shuanghuanglian Injections
2	A	23.7%	Shuanghuanglian Oral Solutions
3	B	15.6%	Calcium Gluconate Oral Solutions, Zinc Gluconate Solutions, Shuanghuanglian Oral Solutions
4	C	7.5%	Injectable Danshen (Lyophilized Powder), Injectable Shuanghuanglian (Lyophilized Powder), Shuanghuanglian Granules

Source: Frost & Sullivan Report

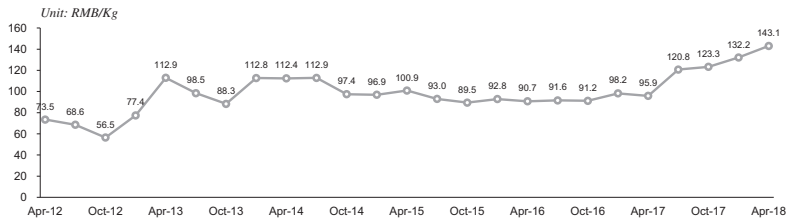
See “Business — Our Competitive Strengths” for discussion on Fusen Pharmaceutical’s competitive advantage.

Principal Raw Materials and Final Products

Shuanghuanglian formula comprises three herbs: Ionicera, baikal skullcap root, and forsythia. According to the Frost & Sullivan Report, the price of Ionicera fluctuated in the past 15 years due to changes in demand and supply as a result of outbreaks of SARS and avian influenza in difference time periods as well as drought in certain regions which produce Ionicera. The price of Ionicera remained relatively stable from early 2014 to April 2017, primarily as a result of (i) adequate plantation of Ionicera from 2009 to 2011, and (ii) considerable amount of Ionicera in stock. Since April 2017, the price of Ionicera showed gradual increase due to rising labor cost as well as weather-driven supply-demand dynamics. While the price of forsythia fluctuated from 2011 to 2015, it remained stable since 2016. In the meantime, market price of baikal skullcap root remained stable since 2011. The charts below set forth historical price of each of the three principal raw materials of Shuanghuanglian during the periods indicated.

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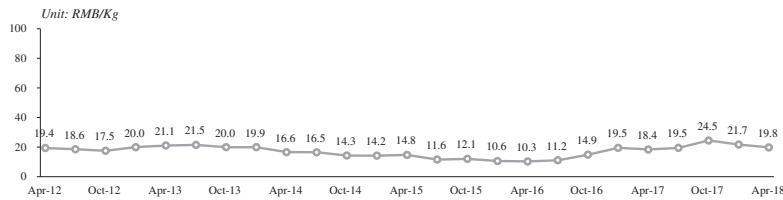
Historical Average Price* of Lonicera



Source: Frost & Sullivan Report

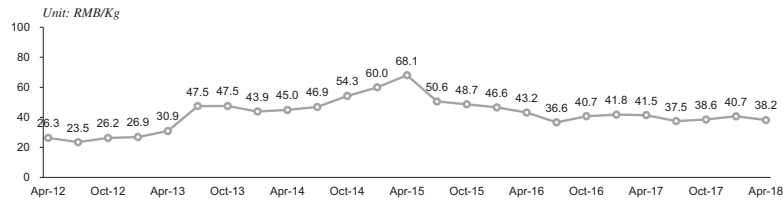
* The price is the average price because the price varies with lonicera quality.

Historical Average Price* of Baikal Skullcap Root



Source: Frost & Sullivan Report

Historical Average Price* of Forsythia



Source: Frost & Sullivan Report

* The price is the average price because the price varies with product quality.

According to the Frost & Sullivan Report, the overall price of the principal raw materials is expected to remain stable in the foreseeable future. Planting and harvesting of our principal raw materials are subject to seasonality, and the price of which may fluctuate due to changes in weather condition and fluctuation in supply and demand of such raw materials.

Lonicera is a major raw material in the process of producing Shuanghuanglian. According to the 2015 version of Chinese Pharmacopoeia, lonicera refers to *Lonicerae Japonicae Flos*, which is the dried buds or freshly opened flowers from *Lonicera Japonica* Thunb. *Lonicerae Japonicae* is one species of honeysuckle native to eastern Asia including China, Japan and Korea. According to the Frost & Sullivan Report, lonicera market is highly concentrated in China. The total production volume of lonicera reached approximately 12,030 tons in 2017. The main lonicera producing regions lie in Hebei, Shandong and Henan provinces. The most famous lonicera producing counties are Pingyi, Shandong Province, Julu, Hebei Province, Xichuan, Henan Province and Fengqiu, Hebei Province, with production volume of 3,620, 3,300, 1,960, 1,700 tons of lonicera decoction pieces, representing 30.1%, 27.4%, 16.3%, 14.1% of the total production volume of lonicera in 2017, respectively.

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PROVISIONS ON FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**Company law**”), which was promulgated by the Standing Committee of the National People’s Congress on December 29, 1993 and became effective on July 1, 1994. It was subsequently amended on December 25, 1999, August 28, 2004, October 27, 2005 and December 28, 2013 respectively. The companies are classified into categories — limited liability companies and companies limited by shares. The Company Law shall also apply to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are also regulated by the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》), which was promulgated on April 12, 1986 and amended on October 31, 2000 and September 3, 2016, and the Detailed Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法實施細則》), which was promulgated on December 12, 1990 and last amended on 19 February 2014. According to the last amended Law of the PRC on Wholly Foreign-owned Enterprises, which was effective from September 3, 2016, where the establishment of wholly foreign-owned enterprises does not involve the implementation of special administrative measures on access prescribed by the state, the approval items including establishment and major change are subject to record-filing management. The special administrative measures on access prescribed by the state shall be promulgated by or approved for promulgation by the State Council.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises is governed by the Catalog for the Guidance of Foreign Investment Industries (《外商投資產業指導目錄》) (the “**Catalog**”), which was amended and promulgated by the MOFCOM and NDRC on June 28, 2017 and became effective on July 28, 2017. The Catalog is a long-standing tool that PRC policymakers have used to manage and direct foreign investment. The Catalog divides industries into three basic categories: encouraged industries, restricted industries and prohibited industries. Foreign investors and foreign-owned enterprises are not allowed to make investments which fall under the “prohibited” industry under the Catalog. Industries not listed in the Catalog are generally open to foreign investment unless specifically barred in other PRC regulations. Our PRC Legal Adviser confirmed that our business does not fall within the “prohibited” or “restricted” category under the Catalog, and is open to foreign investment.

MEDICINE ADMINISTRATIVE REGULATORY FRAMEWORK

The Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), which was promulgated by the Standing Committee of the National People’s Congress on September 20, 1984 and came into effect on July 1, 1985, as last amended and came into effect on April 24, 2015, together with its implementation regulations, provides the legal framework for the administration of the production and sale of pharmaceutical products in the PRC which covers the manufacturing, distribution, registration, packaging, pricing and advertising of pharmaceutical products in the PRC.

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MANUFACTURE

Research and development

Institutions engaging in research for applications for clinical trials and production of medicines are required to register in accordance with Pharmaceutical Product Research Institution Filing Procedures (Trial) (《藥品研究機構登記備案管理辦法》), which was promulgated on and became effective from October 15, 1999 by the CFDA. Research institutions engaged in conducting clinical trials of medicines are required to carry out their clinical trials in accordance with the Administrative Standards of Pharmaceuticals Clinical Trials (《藥物臨床試驗質量管理規範》) promulgated by the CFDA on August 6, 2003 and became effective from September 1, 2003, which apply to the design, organization, implementation, supervision, recording, analysis and reporting of clinical trials conducted following approval from the CFDA. Research institutions engaged in conducting pre-clinical research are required to carry out their research activities in accordance with Administrative Standards of the Pharmaceuticals Non-Clinical Research (《藥物非臨床研究質量管理規範》) promulgated by the CFDA on July 27, 2017 and became effective from September 1, 2017, which apply to research on, among others, synthetic techniques, extraction method, chemical nature and purity, forms of intake, production methods, examination methods, quality standards, stability, and toxicity studies of a medicine conducted prior to the submission of the application for clinical trials to the CFDA. If certain actions in the pre-clinical trial research and clinical research conducted for a clinical application trial, and/or in the application procedures for registration of medicines, are in violation of the relevant rules and regulations, the CFDA is authorized to handle such cases pursuant to the Measures regarding Noncompliance with Relevant Rules of Research and Application for Registration of Medicines (《藥品研究和申報註冊違規處理辦法(試行)》) promulgated on and effective from September 1, 1999. On July 22, 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 reassess the clinical trials data in respect of each application.

Pharmaceutical products' manufacturing

Manufacturing licenses and approvals

Each pharmaceutical manufacturing enterprise is required to obtain a medicine manufacturing permit and a business license. Pursuant to the Regulations for Implementation of the Drug Administration Law of the PRC (《中華人民共和國藥品管理法實施條例》) which was promulgated on August 4, 2002 by the State Council and effective from September 15, 2002 and last amended by Decision of the State Council on Revising Certain Administrative Regulations (《國務院關於修改部分行政法規的決定》) on February 6, 2016, and the Measures on the Supervision and Administration of the Manufacture of Pharmaceuticals (《藥品生產監督管理辦法》) promulgated by the CFDA on August 5, 2004, became effective from August 5, 2004 and last amended on November 17, 2017, the medicine manufacturing permit is issued by local medicine administrative authorities at the provincial level. The grant of such permit is subject to an inspection of the manufacturing facilities and a finding that their staff qualification, the surroundings, sanitary conditions, quality assurance systems, management structure and equipment meet the required standards. Each medicine manufacturing permit is valid for five years and may be renewed at least six months prior to its expiration date upon re-examination by the relevant authority.

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Good Manufacturing Practices of Pharmaceutical Products (《藥品生產質量管理規範》)

A GMP certificate is required for the production of each dosage form of pharmaceutical products. GMP, which was promulgated by the MOH on June 18, 1999 and took effective on August 1, and amended on January 17, 2011 and became effective on March 1, 2011, is a set of detailed basic guidelines on manufacture and quality control of pharmaceutical products, with the purpose of ensuring that products are consistently manufactured appropriately according to their intended use and statutory registration requirements for the pharmaceutical products by minimizing the risks of contamination, cross contamination, mix-ups and/or errors during the manufacturing process.

GMP certification criteria include sections regarding quality control, institution and staff qualifications, hygiene requirements for staff, production premises and facilities, equipment, material and products, recognition and inspection, documentation maintenance, manufacturing management and quality assurance, contractual manufacture and inspection for the products, product distribution and recalls and self-inspection.

Under the Measures for Drug GMP Certification (《藥品生產質量管理規範認證管理辦法》) promulgated on and became effective from August 2, 2011 by the CFDA, a new or existing pharmaceutical manufacturer that extends its manufacturing scope or establishes a new workshop shall apply for GMP certification. Where a pharmaceutical manufacturer rebuilds or extends its existing plants or production lines, it shall reapply for GMP certification. GMP certificates shall be renewed no later than six months before the expiry of its valid term. Such renewal shall be granted upon re-examination by the relevant authority.

Approval and registration

Registration of New Medicine Certificate

According to the Administrative Measures for Drug Registration (《藥品註冊管理辦法》), promulgated by the CFDA on July 10, 2007 and became effective from October 1, 2007, New Medicines refer to those products which have never been launched in the PRC market previously. Pharmaceutical products taking different dosage forms or route of administration or having curative effects for additional diseases are treated as New Medicines.

New Medicines are registered under three different types: Chinese medicines and natural medicine, chemical pharmaceutical products and biochemical products, each of which are divided into different categories. Different requirements are applicable to the registration under different types.

All New Medicines must undergo four phases before launching: pre-clinical research, application for clinical trials, clinical trials and approval of production.

Upon the completion of pre-clinical research, pharmaceutical product manufacturers are required to obtain approval from the CFDA prior to the commencement of clinical trials of any New Medicine.

Clinical trials comprise four phases: phase I (preliminary pharmacology and human safety trials), phase II (preliminary assessment on therapeutic efficacy), phase III (confirmation of therapeutic efficacy) and phase IV (research on applications after launching of New Medicines). The number of tested cases of clinical trials shall accord with the aim of each phase of clinical trials and relevant

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statistical requirements, and shall not be less than the statutory minimum number of clinical trial cases, save in the case of rare diseases, special diseases and other exceptional circumstances approved by CFDA.

Upon completion of clinical trials, the applicant shall also apply for an approval to manufacture the New Medicines. If successful, the applicant will be granted a New Medicine Certificate and an approved pharmaceutical number. The manufacturer may then commence mass production of the New Medicine.

The CFDA may stipulate a monitoring period of up to five years in respect of any New Medicine approved for production to monitor the safety of such New Medicine on an ongoing basis. The CFDA will not approve the production, change and import of such New Medicine by other enterprises during the monitoring period. No applications for the registration of similar pharmaceutical products by other applicants shall be accepted after the commencement of the monitoring period for such New Medicine. Applications for the registration of pharmaceutical products of similar products by other applicants that have been accepted but have not been approved to begin clinical trials shall be returned. However, after a New Medicine enters the monitoring period, for other applications whose clinical trial have already been approved by CFDA, the on-going application shall continue in the regular review process, and CFDA may approve the production or import of that application in compliance with the requirements, as well as monitor the New Medicine produced by the pharmaceutical manufacturer within the PRC. Upon the expiration of the monitoring period of the New Medicine, applicants may file an application in respect of their Generic Medicines or for the import of similar pharmaceutical products.

Under the Administrative Measures on the Special Examination and Approval of New Medicine Registration (《新藥註冊特殊審批管理規定》), which was promulgated and implemented since January 7, 2009 by the CFDA, certain types of New Medicines may apply to go through the special examination and approval process when submitting the application for clinical trials or the production.

On July 31, 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的公告》), which stated that it will apply the most stringent standard to review and approve current drug applications. In addition, on November 11, 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 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.

Registration of Generic Medicines

Generic Medicines are those that have already been launched in the PRC market and are in compliance with applicable national standards set by the PRC government.

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For Generic Medicines, the applicants need to go through at least two processes, which are pre-clinical research and the application of production. Clinical trials could be required where the CFDA deem necessary. All the applicants may begin the manufacturing process after obtaining the production permit by the CFDA.

Immediate packaging materials and containers of medicines

According to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), together with its implementation regulations, and Administrative Provisions on Immediate Drug Packaging Materials and Containers (《直接接觸藥品的包裝材料和容器管理辦法》), which was promulgated by CFDA and took effective on July 20, 2004, immediate drug packaging materials and containers shall meet the requirements for medicinal use and the standards for ensuring human health and safety. CFDA shall promulgate the registered immediate packaging materials and containers catalog and implement registration management to the products of the catalog.

Pharmaceutical gelatin capsules and capsule medicines

According to the Circular on Strict Implementation of Batch Testing regarding the Pharmaceutical Gelatin Capsules and Capsule Medicines (《關於嚴格實施藥用明膠膠囊和膠囊劑藥品批批檢的公告》) promulgated by CFDA on April 27, 2012 and became effective on May 1, 2012, the Notice on Strengthening the Quality Administration of the Capsule Medicines and Relevant Products (《關於加強膠囊劑藥品及相關產品品質管理工作的通知》) promulgated by CFDA on April 28, 2012 and came into effect on May 1, 2012 together with a series of notices promulgated by CFDA, the manufacturers of capsule medicine shall purchase pharmaceutical capsules from the enterprise with a production qualification approval number for such pharmaceutical capsules. The pharmaceutical capsules, as well as the capsule medicines, shall be tested by batch by the pharmaceutical manufacturing enterprise.

Drug insert sheets and labels

According to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), together with its implementation regulations, and Provisions for Drug Insert Sheets and Labels (《藥品說明書和標籤管理規定》), which was promulgated by CFDA on March 15, 2006 and came into effect on June 1, 2006, a label shall be printed or stuck on the drug package and shall indicate the adopted name of the drug used in PRC, its ingredients specification, manufacturer, approval number, product batch number, production date, date of expiry, indications or functions, usage, dosage, contraindications, adverse drug reactions and precautions. The smallest packages produced by a pharmaceutical manufacturing enterprise for sale on the market must be attached with an insert sheet. The drug insert sheet shall include important scientific data, conclusion and information on its safety and effectiveness, so as to guide the safe and reasonable usage of the medicine.

DISTRIBUTION

Medicine Operation Certificate

The establishment of a wholesale pharmaceutical distribution company requires the approval of the provincial medicine administrative authorities. Upon approval, the authority will grant a medicine operation certificate in respect of the wholesale pharmaceutical product distribution company. The establishment of a retail pharmacy store requires the approval of the local medicine administrative

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authorities at or above the county level. Upon approval, the authority will grant an Operation Certificate in respect of the retail pharmacy store. Once these permits are received, the wholesale or retail pharmaceutical company (as the case may be) shall be registered with the relevant local branch of SAIC.

Under the Measures for the Administration of Medicine Operation Certificate (《藥品經營許可證管理辦法》) promulgated by the CFDA on February 4, 2004 and became effective from April 1, 2004, and amended on November 17, 2017, a Medicine Operation Certificate is valid for five years. Each holder of the medicine operation certificate must apply for an extension of its permit six months prior to expiration.

Good Supply Practice of Pharmaceutical Products (《藥品經營質量管理規範》)

Each retail or wholesale operator of pharmaceutical products is required to obtain a GSP certificate from the relevant medicine administrative authorities prior to commencing its business. GSP, which was promulgated and took effective on July 13, 2016, constitutes the basic standards in management of operation quality of medicines and shall apply to enterprises exclusively or concurrently engaged in medicine operation within the PRC. The current applicable GSP standards require pharmaceutical operators to implement strict controls on its operation of pharmaceutical products, including standards regarding staff qualifications, premises, warehouses, inspection equipment and facilities, management and quality control. Under the Administrative Measures for Certification of Good Supply Practices (《藥品經營質量管理規範認證管理辦法》) promulgated on and became effective from April 24, 2003 by the CFDA, the GSP certificate is generally valid for five years and may be extended three months prior to the expiry of its valid term.

Supervision and management of medicine distribution

Under Provisions for Supervision of Drug Distribution (《藥品流通監督管理辦法》), which was issued by the CFDA on January 31, 2007 and came into effect on 1 May 2007, detailed provisions are imposed on aspects such as the purchase, sale, transportation and storage of medicines by pharmaceutical production and operation enterprises as well as the purchase and storage of medicines by pharmaceutical institutions.

Online pharmaceutical information service permit

The Provisions on Drug Information Service Over the Internet (《互聯網藥品信息服務管理辦法》), promulgated and implemented since July 8, 2004 by the CFDA and amended and came into effect on November 17, 2017, define the delivery of medicine information services over the Internet as online medicine information service. This service requires a qualification certificate from the relevant provincial medicine administrative authorities. The qualification certificate is valid for five years and may be renewed by filing for a renewal at least six months prior to its expiration date and undergoing re-examination by the relevant authority.

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OTHER RELATED REGULATIONS IN THE PRC PHARMACEUTICAL INDUSTRY

Chinese medicine protection

According to the Regulations on the Protection of Chinese Medicines (《中藥品種保護條例》) promulgated by the State Council on October 14, 1992 and became effective from January 1, 1993, for the purposes of improving the quality and promoting the development of traditional Chinese medicines, protections are granted to a variety of domestically manufactured traditional Chinese medicines, which shall be included in the list of national medicine standards ingredients and meet certain statutory requirements. Different provisions have been stipulated for the prescription composition, production techniques and their overseas transfers.

Prescription medicines and OTC medicines

In order to promote safety, efficacy and convenience in the use of pharmaceutical products, the CFDA published the Trial Administrative Measures regarding the Classification of Prescription Medicines and Over-the-Counter Medicines (《處方藥與非處方藥分類管理辦法(試行)》) on June 18, 1999 with effect from January 1, 2000. These administrative measures divide medicines according to their type, specification, the relevant disease or ailment which they are designed to treat, dosage and method of administration. Prescription medicines are those whose prescription, purchase and intake require prescription by practicing doctors or assistant doctors. OTC medicines are those whose prescription, purchase and intake do not require prescription by practicing doctors or assistant doctors.

The CFDA is responsible for the selection, approval, publication, and revision of the State Non-Prescription Medicine Catalog (《國家非處方藥目錄》). Depending on the safety of the relevant medicine, OTC medicines are further subdivided into type A and type B and are administered separately. Manufacturers of both prescription and OTC medicines are required to obtain a pharmaceutical manufacturing permit and to obtain production approvals for the relevant medicines: (i) wholesalers of prescription medicines and OTC medicines and (ii) retailers of prescription medicines and type A OTC medicines are required to obtain a pharmaceutical operation permit. Retail outlets selling type B OTC medicines require approval from the provincial bureau of the CFDA or the authorized bureau. In addition, retail outlets selling type B OTC medicines are required to have professionally trained and suitably qualified staff before engaging in the sale of type B OTC medicines.

National Essential Medicine List

On August 18, 2009, the MOH and eight other ministries and commissions in the PRC issued the Provisional Measures on the Administration of the National Essential Medicine List (《國家基本藥物目錄管理辦法(暫行)》), which was amended on February 13, 2015, and the Circular on the Guidelines on the Implementation of the National Essential Medicine List System (《關於印發〈關於建立國家基本藥物制度的實施意見〉的通知》), which was issued and took effective on August 18, 2009 and aims to promote essential medicines sold to consumers at fair prices in the PRC and ensure that the general public in the PRC has equal access to the medicines contained in the National Essential Medicine List.

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National Insurance Medicines Lists and basic medical insurance system for urban worker

Pursuant to the Decision of the State Council on the Establishment of the Urban Worker Basic Medical Insurance Program (《國務院關於建立城鎮職工基本醫療保險制度的決定》) issued by the State Council on December 14, 1998, all employers in urban cities are required to enroll their employees in a basic medical insurance program with the payable insurance premium jointly contributed by employers and employees on a monthly basis. The Notice Regarding the Provisional Measures for the Administration of the Scope of Basic Medical Insurance Coverage for Pharmaceutical Products for Urban Worker (《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》), jointly issued by several authorities including the Ministry of Labor and Social Security and the Ministry of Finance and other governmental authorities on May 11, 1999, further requires that a pharmaceutical product included in the Medicines List for National Basic Medical Insurance must be clinically necessary, safe, effective, reasonably priced, user-friendly, available in the market and must meet at least one of the following requirements:

- it is set forth in the Pharmacopeia of the PRC;
- it meets standards promulgated by the CFDA; and
- it is approved by the CFDA for import.

The Medicines List for National Basic Medical Insurance is divided into two parts, Part A and Part B. The medicines included in Part A are determined by the PRC government for general application and local authorities may not alter the list of medicines in Part A. The medicines in Part B are determined by the PRC government, and local authorities at the provincial level may, based on local economic development, medical demand and medical treatment habit, alter up to 15% of the total number of Part B medicines.

As a result, the contents of Part B in the Medicines List for National Basic Medical Insurance may differ from region to region in the PRC. Patients purchasing medicines included in Part A of the Medicines List for National Basic Medical Insurance are entitled to reimbursement of the entire amount of the purchase price while patients purchasing medicines included in Part B of the Medicines List for National Basic Medical Insurance are required to pay a deductible and obtain reimbursement for the remainder of the purchase price. The amount of the deductible differs from region to region in the PRC.

On February 21, 2017, the Ministry of Human Resources and Social Security issued the Circular of the Ministry of Human Resources and Social Security on Issuing the Medicines List for National Basic Medical Insurance, Work- Related Injury Insurance and Maternity Insurance (2017 Edition) (《人力資源社會保障部關於印發〈國家基本醫療保險、工傷保險和生育保險藥品目錄〉的通知(2017年版)》).

Advertising restriction

Pursuant to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) and the Measures on the Examination of Pharmaceuticals Products Advertisement (《藥品廣告審查辦法》) promulgated on March 13, 2007 and became effective from May 1, 2007, an enterprise seeking to advertise its pharmaceutical products must apply for an advertising approval code number. The code number is issued by the relevant local administrative authority.

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Drug recall

According to the Measures on Drug Recall (《藥品召回管理辦法》) effective from December 10, 2007, 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 potential safety hazards. If there are any potential 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 manufacturer to satisfy its recall obligations by communicating the drug recall information and any feedback, controlling and recovering such drugs according to the recall plan.

Healthcare fraud and abuse

According to Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), which was effective on December 1, 1993, amended on November 4, 2017 and took into effect on January 1, 2018, business operator bribery by giving properties or using any other method in order to sell or purchase the commodities and violate the Criminal Law, shall be investigated in accordance with the Criminal Law. If the acts as first mentioned do not violate the Criminal Law, the supervisor may fine an amount from more than RMB10,000 to less than RMB200,000 in accordance with the facts and confiscate the illegal income.

The Interim Provisions on Banning Commercial Bribery (the “**Interim Provisions**”) (《關於禁止商業賄賂行為的暫行規定》) (effective on November 15, 1996) provides a detailed scope of “properties or using any other method”. The term “property” refers to cash and material objects, including property given by a business operator to another entity or individual in the name of promotion fee, publicity fee, sponsorship fee, scientific research fee, service charge, consulting fee, commissions, reimbursed expenses, etc., in order to sell or purchase commodities, and the term “other means” refers to any means other than giving property, such as offering domestic or international tours or surveys in various names. In addition, the Interim Provisions also made it clear that commercial bribery committed by any employee of a business operator for selling or purchasing commodities for the operator shall be regarded as the operator’s act.

According to Criminal Law of the PRC (《中華人民共和國刑法》) (effective on January 1, 1980), as amended on March 14, 1997, December 25, 1999, August 31, 2001, December 29, 2001, December 28, 2002, February 28, 2005, June 29, 2006, February 28, 2009 and February 25, 2011, August 29, 2015 and November 4, 2017 and the Opinions of the Supreme People’s Court and the Supreme People’s Procuratorate on Issues Concerning the Application of Law in the Handling of Criminal Cases of Commercial Briberies (《最高人民法院、最高人民檢察院關於辦理商業賄賂刑事案件適用法律若干問題的意見》) (effective on November 20, 2008), business operators in the healthcare industry may be prosecuted with several charges due to commercial bribes, and these charges include: crime of acceptance of bribes by a non-state functionary, crime of offering bribes to a non-state functionary, crime of acceptance of bribes, crime of acceptance of bribes by an entity, crime of offering bribes, crime of offering bribes to an entity, crime of bribing as an intermediary and crime of offering bribes by an entity. If found guilty, such operator may be punished by a term sentence, life sentence or even a death sentence.

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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》) effective from March 1, 2014, an operating enterprise, 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. 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 for two times or more in a period of five years, no public medical institutions or any other medical institutions which receive public subsidy throughout the PRC may purchase any of its products from such manufacturer within two years after the name list with commercial bribery has been published.

Two-invoice System

In order to further optimize the order of purchasing and selling pharmaceutical products and reduce circulation steps, as required at the executive meeting of the State Council dated April 6, 2016 and under the 2016 List of Major Tasks in Furtherance of the Healthcare and Pharmaceutical Reforms (《深化醫藥衛生體制改革2016年重點工作任務》) issued by the General Office of the State Council on April 21, 2016, the “two-invoice System” (兩票制) will be fully implemented in the PRC. According to the Circular on Issuing the Implementing Opinions on Carrying out the Two-invoice System for Drug Procurement among Public Medical Institutions (for Trial Implementation) (《印發〈關於在公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)〉的通知》) (the “**Circular**”), which was effective from December 26, 2016, the two-invoice system means one invoice between the pharmaceutical manufacturer and the pharmaceutical distributor, and one invoice between the pharmaceutical distributor and the hospital, and thereby only allows a single level of distributor for the sale of pharmaceutical products from the pharmaceutical manufacturer to the hospital. According to the Circular, two-invoice system will be promoted in pilot provinces (autonomous regions and municipalities directly under the Central Government) involved in the comprehensive medical reform program and pilot cities for public hospital reform on a priority basis, while other regions are encouraged to implement such system, so that such system can be promoted in full swing nationwide in 2018.

PRICE CONTROLS

Pursuant to the Circular of the National Development Planning Commission on Printing and Distributing the Measures for Pricing of Medicines by Government (《國家計委關於印發藥品政府定價辦法的通知》) promulgated on November 21, 2000 and became effective from December 25, 2000 and the 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》) promulgated and took effective on November 9, 2009, fixed prices and maximum retail prices on medicines are determined based on profit margins that the relevant government authorities deem reasonable, the type and quality of the medicine,

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its average production costs, and the prices of substitute medicines. The NDRC directly regulates the price of a portion of the medicines on the list, and delegates to provincial and regional price control authorities the authority to regulate the pricing of the rest of the medicines on the list.

On May 4, 2015, CFDA and several other authorities 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 June 1, 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. 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.

Pursuant to the Circular on Printing and Distributing the Opinions on Safeguarding the Supply of Low-price Common Drugs (《關於印發做好常用低價藥品供應保障工作意見的通知》), which was effective from April 1, 2014, and the Circular of the National Development and Reform Commission on Issues Concerning Improving Price Management of Low-Price Drugs (《國家發展和改革委員會關於改進低價藥品價格管理有關問題的通知》), which was issued on and became effective from April 26, 2014, issues concerning price management are hereby notified as follows: (i) Improve the price management mode for low-price drugs; (ii) Determine the standards of average daily costs for low-price drugs; (iii) Establish a mechanism for access into and exit from the list of low-price drugs; (iv) Strengthen the regulation over market activities on price; and (v) Improve the linkage between policies.

DRUG PURCHASES BY HOSPITALS

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》) promulgated and took into effect on February 16, 2000 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》) promulgated on July 18, 2000 and became effective from September 1, 2000, a medical institution must be defined as a profit-making or non-profit-making institution at the time when it is established. A non-profit-making medical institution is established to provide services to the general public, with its revenue used for maintaining and developing such institution, while a profit-making medical institution is established by investors for the purpose of investment return. The PRC government does not establish any profit-making medical institutions, while non-government entities may establish profit-making medical institutions. Any non-profit-making medical institutions must implement a collective tender system in respect of any drug purchases and any profit-making medical institutions need not to implement such a system according to PRC law.

According to the Notice on the Trial Implementation of the Collective 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》) promulgated and was effective on July 7, 2000, the Notice on the Further Standardizing of the Collective 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》) promulgated and became effective on August 8, 2001 and the Opinions concerning Further Regulating Purchase of Medicines by Medical Institutions through Collective Tendering (《關於進一步規範醫療機構藥品集中採購工作的意見》) promulgated and took into effect on January 17, 2009, any non-profit-making medical institutions established and/or controlled by any

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government at a county level or above must implement the collective tender system in respect of purchase of any drugs which are contained in the Medicines List for National Basic Medical Insurance and are generally used for clinical purposes and purchased in relatively large amount.

The Circular on the Good Practice of Medical Institutions with respect to Collective Procurement of Drugs (《醫療機構藥品集中採購工作規範》) promulgated and was effective on July 15, 2010, provides stipulations in detail in respect of the catalog for collective procurement and methods, procedures, evaluators, expert database construction and management of drugs, further regulating the collective 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 Collective Procurement of Drugs, any non-profit-making medical institutions established by the government at the county level or above or state-owned enterprises (including stock-holding enterprises) must participate in the collective procurement of medical institutions. The collective procurement management authority at provincial (municipal or district) level is responsible for compiling the catalog of drugs for collective 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 catalog for collective 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 catalog for collective procurement.

According to the Guidance Opinion of the General Office of the State Council on the Improvement of the Drug Collective 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》) promulgated and came into effect on February 9, 2015, the collective procurement work of public hospitals will be improved through the classification purchase of drugs. All drugs used by public hospitals (with the exception of traditional Chinese medicine decoction pieces) should be procured through a provincial collective pharmaceutical procurement platform. The provincial procurement agency should work out a summary of the procurement plans and budget submitted by hospitals and compile reasonably a drug procurement catalog 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.

PRINTING INDUSTRY

Companies in the printing industry in the PRC have to comply with certain regulatory requirements established by the PRC government including but not limited to (i) the Regulations of Administration of Printing Industry (《印刷業管理條例》) promulgated and implemented on August 2, 2001 by the PRC State Council and last amended on March 1, 2017; (ii) the Administration Regulations on Fulfilling Printing Orders (《印刷品承印管理規定》) jointly promulgated on July 18, 2003 and implemented on September 1, 2003 by the General Administration of Press and Publication of the PRC and the Ministry of Public Security of the PRC; (iii) the Temporary Regulations for the Establishment of Foreign Investment Printing Enterprises (《設立外商投資印刷企業暫行規定》) jointly promulgated and implemented by the General Administration of Press and Publication of the PRC and the Ministry of Foreign Trade and Economic Cooperation of the PRC (now known as the Ministry of Commerce of the PRC) on January 29, 2002 and amended on August 28, 2015, and the Supplementary Provisions of the Temporary Regulations for the Establishment of Foreign Investment Printing Enterprises (《關於〈設立外商投資印刷企業暫行規定〉之補充規定》) and the Supplementary Provisions II of the Temporary

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Regulations for the Establishment of Foreign Investment Printing Enterprises (《關於〈設立外商投資印刷企業暫行規定〉之補充規定(二)》) promulgated on November 12, 2008 and December 12, 2012 respectively by the General Administration of Press and Publication of the PRC and the Ministry of Commerce of the PRC; and (iv) the Temporary Regulations for the Qualifications of the Operators in the Printing Industry (《印刷業經營者資格條件暫行規定》) promulgated and implemented on November 9, 2001 by the General Administration of Press and Publication of the PRC and amended on August 28, 2015 (collectively, the “**Printing Laws and Regulations**”).

Pursuant to the Printing Laws and Regulations, foreign entities are allowed to set up foreign capital invested printing enterprises which can be (i) a joint venture or corporation engaging in the printing industry in the PRC (a PRC partner is required); or (ii) a wholly foreign owned enterprise engaging in package segment of the printing industry. Moreover, any legal entities (including those foreign capital invested enterprises) or individuals engaging in printing business in the PRC must apply for a printing license from the publication administrative authority at the relevant provincial, autonomous region or municipal level. The printing license may not be leased, lent or transferred by any means. The Printing Laws and Regulations also stipulate that, upon obtaining approval from relevant administrative departments in charge of publishing, those foreign capital invested enterprises engaging in printing business may receive production orders from foreign publishers to print publications, packaging and decorative printed products and other printed products that are to be exported out of the PRC.

Furthermore, in accordance with the Temporary Regulations for the Qualification of the Operators in the Printing Industry, as mentioned above, in order to obtain a printing license, applicants are required to: (i) submit the name of the enterprise and its bylaws; (ii) provide a well-defined scope of business; (iii) be in possession of production and business premises that can meet the needs of its scope of business, necessary capital, equipment and other production and business conditions; (iv) be in possession of an organizational structure and staff that can meet the needs of its scope of business; and (v) fulfill other conditions stipulated by the relevant laws and administrative regulations. In addition to the provisions mentioned above, the approval of the establishment of a printing enterprise must also conform to the planning of the PRC relating to the total number, structure and distribution of the printing enterprises.

GAS MANAGEMENT

On November 19, 2010, the State Council of the People’s Republic of China promulgated the Regulation on the Administration of Urban Gas (《城鎮燃氣管理條例》), which was effective from March 1, 2011 and amended on February 6, 2016. This Regulation aims to strengthen the administration of urban gas, guarantee gas supply, prevent and reduce gas safety accidents, safeguard the life and property safety of citizens, protect the legitimate rights and interests of gas operators and gas users and promote the healthy development of gas industry.

This Regulation shall mainly apply to urban gas development planning and emergency guarantee, gas operation and service, gas usage, gas facilities protection, prevention and handling of gas safety accidents and relevant administrative activities. According to this regulation, the state implements a license system for gas operation and prohibits individuals from engaging in piped natural gas operation. Enterprises meeting provisions of the Regulation on the Administration of Urban Gas will be granted with a gas operation license certificate by the gas management departments under the local people’s government at or above the county level.

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TAXATION

Income tax

According to EIT Law (《中華人民共和國企業所得稅法》) which was promulgated by the National People's Congress on March 16, 2007, became effective on January 1, 2008 and last amended on February 24, 2017, the income tax rate for both domestic and foreign- invested enterprises is 25% commencing January 1, 2008.

Under the Law of the People's Republic of China on EIT, High New Technology Enterprises that require key state support are subject to the applicable EIT rate with a reduction of 15%.

Value-added tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on December 13, 1993 and last amended on November 19, 2017, all entities or individuals in the PRC engaged in the sale of goods, processing services, repair and replacement services, and the importation of goods are required to pay value-added tax ("VAT"). VAT payable is calculated as "output VAT" minus "input VAT", and the rate of VAT is 17% or in certain limited circumstances, 13%, depending on the products.

PROTECTION OF PHARMACEUTICAL PRODUCTS IN THE PRC

Patent law

Under the PRC Patent Law (《中華人民共和國專利法》), which was promulgated by the Standing Committee of the National People's Congress on March 12, 1984 and became effective from April 1, 1985, as amended on September 4, 1992, August 25, 2000 and December 27, 2008, the period of patents relating to inventions are twenty years from the initial date the patent application was filed and the patent becomes effective upon the authorization announcement published by SIPO. The period of patents relating to utility model patents and design patents are ten years from the initial date the patent application was filed and the patent becomes effective upon the authorization announcement published by SIPO. Any persons and entities using the patent in the absence of authorization from the patent owner or conducting other activities which infringe patent rights will be held liable for compensation to the patent owner, subject to fines charged by relevant administrative authorities and may include criminal liabilities, as the case may be.

Trademark law

Under the PRC Trademark Law (《中華人民共和國商標法》), which was promulgated by the Standing Committee of the National People's Congress on August 23, 1982 and became effective from March 1, 1983, as amended on February 22, 1993, October 27, 2001 and August 30, 2013, the Trademark Office of SAIC is responsible for the registration and administration of trademarks throughout the country. The period of validity of a registered trademark is ten years from the date of registration; renewal is allowed thereafter and the period of validity of each renewal of registration is ten years. Any persons and entities using the registered trademark in the absence of authorization from

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the registered trademark holder or conducting other activities which infringe registered trademark rights will be held liable for compensation to the registered trademark holder, subject to fines charged by relevant administrative authorities and may include criminal liabilities, as the case may be.

ENVIRONMENTAL PROTECTION

The Ministry of Environmental Protection of the PRC is responsible for the uniform supervision and control of environmental protection in the PRC. It formulates national environmental quality and discharge standards and monitors the PRC's environmental system. Environmental protection bureaus at the county level and above are responsible for environmental protection within their areas of jurisdiction.

Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the “**Environmental Protection Law**”), promulgated on and became effective from December 26, 1989 by the Standing Committee of the National People's Congress and amended on April 24, 2014, the environmental protection department of the State Council is in charge of promulgating national standards for environmental protection. The Environmental Protection Law requires any facility that produces pollutants or other hazards to incorporate environmental protection measures in its operations and establish an environmental protection responsibility system. Any entity that discharges pollution must register with the relevant environmental protection authority. Remedial measures for breaches of the Environmental Protection Law include a warning, payment of damages or imposition of a fine. Criminal liability may be imposed for a material violation of environmental laws and regulations that causes loss of property, personal injuries or death.

Pursuant to the Law on Environmental Impact Evaluation of the PRC (《中華人民共和國環境影響評價法》) promulgated on October 28, 2002 and became effective from September 1, 2003, by the Standing Committee of the National People's Congress and amended on July 2, 2016, manufacturers must prepare and file an environmental impact report setting forth the impact that the proposed construction project may have on the environment and the measures to prevent or mitigate the impact for approval by the relevant PRC government authority prior to commencement of construction of the relevant project. New facilities built pursuant to this approval are not permitted to operate until the relevant environmental bureau has performed an inspection and is satisfied that the facilities are in compliance with environmental standards.

Pursuant to the Air Pollution Prevention Law of the PRC (《中華人民共和國大氣污染防治法》) promulgated by the Standing Committee of the National People's Congress on September 5, 1987, last amended on August 29, 2015 and effective from January 1, 2016, the environmental protection authorities above the county level are in charge of exercising unified supervision and administration of prevention and control of air pollution. Manufacturers discharging polluted air must comply with applicable national and local standards. Manufacturers discharging polluted air must also pay discharging fees. If a manufacturer emits polluted air exceeding national or local standards, it must correct its action during a prescribed period of time and the manufacturer may be subject to penalties.

Pursuant to the Water Pollution Prevention Law of the PRC (《中華人民共和國水污染防治法》) promulgated by the Standing Committee of the National People's Congress on May 11, 1984, amended on May 15, 1996, February 28, 2008 and June 27, 2017, and became effective from January 1, 2018, manufacturers must discharge water pollutants in accordance with national and local standards. If the water pollutants discharged exceed national or local standards, the manufacturer would be subject to

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finances amounting to two to five times the water pollutants treatment fees. In addition, the environmental protection authority has the right to order such manufacturer to correct their actions by reducing the amount of discharge during a stipulated period of time by restricting or suspending their operations. If the manufacturer fails to correct its action at the expiration of the stipulated period, the environmental protection authority may, subject to approval by the relevant level of the PRC government, shut down the operation of the manufacturer.

According to the Law of the PRC on Prevention and Control of Environmental Pollution by Noise (《中華人民共和國環境噪聲污染防治法》) promulgated on October 29, 1996 and became effective on March 1, 1997, new construction project, expansion, or reconstruction project that discharges pollutants into the air shall be subject to the state regulations on environmental protection of construction projects. Industrial enterprises that discharge noise during industrial production with fixed facilities shall report to the local environmental protection department categories and quantities of their existing facilities for discharging noise, and the volume of noise discharged under their normal operation conditions as well as treating facilities against noise, and also submit to the same department technical information with regard to the prevention and control of noise pollution. Units discharging noise which exceeds the relevant standards shall pay the discharge fee subject to the regulations.

OCCUPATIONAL HEALTH AND SAFETY

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》) promulgated by the Standing Committee of the National People's Congress on July 5, 1994 and became effective from January 1, 1995, as amended on August 27, 2009, employers must establish a comprehensive management system to protect the rights of their employees, including a system governing occupational health and safety to provide employees with occupational training to prevent occupational injury.

Pursuant to the Law of Manufacturing Safety of the PRC (《中華人民共和國安全生產法》) promulgated by the Standing Committee of the National People's Congress on June 29, 2002 and became effective from November 1, 2002, as last amended on August 31, 2014, manufacturers must establish a comprehensive management system to ensure manufacturing safety in accordance with applicable laws and regulations. Manufacturers who do not meet relevant legal requirements are not permitted to commence manufacturing activities.

Pursuant to the PRC Labor Contract Law (《中華人民共和國勞動合同法》) promulgated by the Standing Committee of the National People's Congress on June 29, 2007 and became effective from January 1, 2008, as amended on December 28, 2012 and came into effect on July 1, 2013, employers are required, when employing labor, to truthfully inform prospective employees of the job description, working conditions, location, occupational hazards and status of safe production as well as remuneration and other conditions as requested by the PRC Labor Contract Law.

PRODUCT LIABILITY AND PROTECTION OF CONSUMERS

Product liability claims may arise if the products sold have any harmful effects on consumers. The injured party may file claims for damages or compensation. The General Rules of the Civil Law of the PRC (《中華人民共和國民法總則》), which was promulgated by the National People's Congress on March 15, 2017 and became effective from October 1, 2017, and the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which was promulgated by the National People's Congress on

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April 12, 1986 and became effective from January 1, 1987, as amended on August 27, 2009, both state that manufacturers and sellers of defective products causing property damage or injury shall incur civil liabilities.

The Product Quality Law of the PRC (《中華人民共和國產品質量法》) was promulgated on February 22, 1993 and became effective from September 1, 1993 by the Standing Committee of the National People's Congress, as amended on July 8, 2000 and August 27, 2009, strengthens quality control of products and protects consumers' rights. Under this law, manufacturers and operators who produce and sell defective products may be subject to the confiscation of earnings from such sales, the revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

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》) was promulgated by the Standing Committee of the National People's Congress on October 31, 1993 and last amended on October 25, 2013 to protect consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and provide services to customers. In extreme situations, pharmaceutical product manufacturers and operators may be subject to criminal liability if their goods or services lead to the death or injuries of customers or other third parties.

On December 26, 2009, the Standing Committee of the National People's Congress of the PRC promulgated the PRC Tort Liability Law (《中華人民共和國侵權責任法》), which became effective from July 1, 2010. Producers shall bear liability for damage caused to others by their defective products, and for such damage, the injured party may seek compensation from either the producer or the seller. Where the product defect is caused by the producer, the seller may, after paying compensation, claim the same from the producer. Where the product defect is caused by the seller, the producer may, after paying compensation, claim the same from the seller. With respect to the environment, the PRC Tort Liability Law highlighted the principle that polluters are to assume liability in respect of harm caused by their environmental pollution, irrespective of whether they have breached national environmental protection regulations.

PROVISIONS RELATING TO FOREIGN EXCHANGE

The Foreign Exchange Administrative Regulations of the PRC (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Administrative Regulations**”), which was promulgated on January 29, 1996 and implemented since April 1, 1996 and was amended with effect from August 5, 2008, forms an important legal basis for the PRC authorities to supervise and regulate foreign exchange.

According to the Foreign Exchange Administrative Regulations, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless prior approval of SAFE is obtained.

In accordance with the SAFE Circular No. 37 promulgated and became effective on July 4, 2014, a “special purpose vehicle” means an offshore enterprise directly established or indirectly controlled by PRC domestic residents (companies or individuals) for the purpose of carrying out offshore equity

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financing with the assets or equity interests they hold in domestic enterprises. PRC domestic residents who intend to carry out offshore equity financing shall file applications to, and obtain the records from, the foreign exchange administrative authorities.

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 October 23, 2014, the SAFE and its branches have canceled 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.

In accordance with the Safe Circular No. 13, promulgated by SAFE on February 13, 2015 and became effective on June 1, 2015, the aforesaid registration under SAFE Circular No. 37 shall be directly reviewed and handled by qualified banks instead of the foreign exchange administrative authorities.

LABOR AND INSURANCE

The relevant labor laws in the PRC include the Labor Law, the PRC Labor Contract Law (《中華人民共和國勞動合同法》), the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) (effective from July 1, 2011), the Regulation of Insurance for Work-Related Injury (《工傷保險條例》) (effective from January 1, 2004 and amended on December 20, 2010), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》) (effective from December 14, 1994), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) (effective from January 22, 1999), the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》) (effective from March 19, 1999), the Regulations on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) (effective from April 3, 1999 and amended on March 24, 2002), and other related law and regulations issued by relevant governmental authorities from time to time in the PRC.

According to the PRC Labor Law, employees are entitled to have equal opportunities in employment, selection of occupations, receiving wages and remuneration, rest days and holidays, protection of occupational safety and health, the rights to social insurance and welfare, etc. An employee shall not work for more than 8 hours a day and no more than 44 hours a week on average. The employers must establish and improve the system for occupational safety and health, provide education on occupational safety and health to employees, and comply with the State and/or local regulations of occupational safety and health as well as provide necessary labor protective measures to employees.

According to the PRC Labor Contract Law, labor contracts must be executed in order to establish a labor relationship between an employer and employees. When an employer is recruiting employees, it should inform the employees truthfully the content of work, working conditions, place of work, occupational hazards, safe production conditions, labor remuneration and other circumstances requested to be notified by the employees. An employer and an employee shall fully perform their respective obligations in accordance with the terms set forth in the labor contract. An employer must make payment for employee remuneration timely and in full amount in accordance with the contract terms, must strictly abide by the fixed standard of labor work, and must not force or threaten an employee in disguise to work overtime. After the labor contract is released or terminated, the employer should issue a proof of release or termination of the labor contract to the employee, and complete the filing procedure and transfer of social insurance relationship for the employee within 15 days.

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Under the Social Insurance Law, the Regulation of Insurance for Work-Related Injury, the Provisional Measures on Insurance for Maternity of Employees, the Interim Regulation on the Collection and Payment of Social Insurance Premiums, and the Interim Provisions on Registration of Social Insurance, an employer is required to contribute the social insurance for its employees, including the basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and injury insurance.

Under the Regulations on the Administration of Housing Accumulation Funds, promulgated by the State Council on April 3, 1999 and as amended on March 24, 2002, employers are required to make contributions to a housing accumulation fund for their employees.

M&A RULES

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “**M&A Rule**”) (《關於外國投資者併購境內企業的規定》) which became effective on September 8, 2006 and was amended on June 22, 2009. Under the M&A Rules, mergers and acquisitions of domestic enterprises by foreign investors must be reviewed and approved by the MOFCOM or its provincial branches. Particularly, the M&A Rules require special purpose offshore companies formed for overseas listing purposes that are controlled directly or indirectly by PRC companies or individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OVERVIEW

Our history can be traced back to October 2003 when Henan Fusen, our principal operating subsidiary, was established in China principally to carry on our business of production, sale and research and development of PCM cold medicines, with a particular focus on Shuanghuanglian-based cold medicines. Prior to the establishment of Henan Fusen, Mr. Cao Changcheng, our Controlling Shareholder, Chairman and executive Director, and Mr. Hou Taisheng, Mr. Chi Yongsheng and Ms. Meng Qingfen, our executive Directors, have accumulated considerable working and managerial experience in pharmaceutical business sector during their tenure of services at Henan Xichuan Pharmaceutical, a state-owned pharmaceutical enterprise established in the PRC. In particular, Mr. Cao Changcheng managed to build up connections with distributors, drugstore chains and standalone drugstores that have strong local knowledge and reputation, as well as professionals and prestigious medical and research institutions which were experienced and knowledgeable in pharmaceutical business sector. In the early 2000s, Mr. Cao Changcheng identified vast business opportunities and recognized the growth potentials of the PCM cold medicine market in China in view of the growing health awareness and aging population in China. PCM cold medicines are expected to be widely used as a substitute to chemical medicines in view of the public awareness of the side effects of chemical medicines. With a view to further exploring the business opportunities in the PCM cold medicine market, Mr. Cao Changcheng, together with 11 other shareholders (including Mr. Hou Taisheng, Mr. Chi Yongsheng and Ms. Meng Qingfen, our executive Directors, and Mr. Fu Jiancheng, our vice president, and seven other former and present employees of our Group), established Henan Fusen in Xichuan County, Henan Province in October 2003. We initially operated our pharmaceutical business through leasing the production facilities from Henan Xichuan Pharmaceutical at an annual rental of RMB8.0 million pursuant to a lease agreement between Henan Xichuan Pharmaceutical and Henan Fusen executed in December 2003. In January 2006, an asset transfer agreement was entered into between Henan Fusen, Henan Xichuan Pharmaceutical and relevant governmental authorities in Xichuan County whereby (a) Henan Xichuan Pharmaceutical transferred to Henan Fusen production facilities and assets, buildings, land use rights and other intangible rights relating to the pharmaceutical business with a carrying amount of approximately RMB130.5 million as at August 31, 2005 as appraised by independent valuer, in consideration of Henan Fusen agreeing to assume all obligations and liabilities of Henan Xichuan Pharmaceutical in respect of the indebtedness for a total amount of approximately RMB178.3 million; and (b) Henan Fusen took up the employment of 1,119 workers previously employed by Henan Xichuan Pharmaceutical. As advised by the PRC Legal Adviser, the above asset transfers were duly approved by competent government authorities in the PRC in November 2005.

BUSINESS DEVELOPMENT AND MILESTONES

For more than a decade since the establishment of Henan Fusen, we have positioned ourselves as the leading Shuanghuanglian-based cold medicines brand in China. The following table sets out the major milestones in the development of the business of our Group to date:

<u>Year</u>	<u>Event</u>
October 2003	Henan Fusen was established and registered in the PRC for the business of production, sales and research and development of PCM cold medicines
November 2003 . .	Fushan Medicinal Packaging commenced the packaging operation of PCM cold medicines in the PRC

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Event
March 2004	The Shuanghuanglian Oral Solutions (雙黃連口服液) and Shuanghuanglian Injections (雙黃連注射液) were launched and have since become our major products
January 2006	An asset transfer agreement was entered into between Henan Fusen, Henan Xichuan Pharmaceutical and relevant governmental authorities in Xichuan County whereby (a) Henan Xichuan Pharmaceutical transferred to Henan Fusen production facilities and assets, buildings, land use rights and other intangible rights relating to the pharmaceutical business with a carrying amount of approximately RMB130.5 million as at August 31, 2005 as appraised by independent valuer, in consideration of Henan Fusen agreeing to assume all obligations and liabilities of Henan Xichuan Pharmaceutical in respect of the indebtedness for a total amount of approximately RMB178.3 million; and (b) Henan Fusen took up the employment of 1,119 workers previously employed by Henan Xichuan Pharmaceutical
September 2008	We successfully obtained the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine)
December 2011.	The Chaihu Injections (柴胡注射液) produced by Henan Fusen successfully passed the on-site examination by the Henan Food and Drug Administration (河南省食品藥品監督管理局)
April 2012	Our research and development center was designated as the Henan Province Micro-encapsulation Technology Research Centre (河南微囊化藥物工程技術研究中心)
January 2013	We successfully obtained the GMP certification for the first production line of small volume injection (小容量注射劑一車間) from the CFDA
July 2013.	We successfully obtained the GMP certifications for the production line of tablets, hard capsules, granules (including pre-treatment and extraction of traditional Chinese medicine) and the second production line of oral solution (including the pre-treatment and extraction of traditional Chinese medicine) from the CFDA
July 2013.	Our research and development center was designated as the Henan Province PCM Injection Safety Laboratory (中藥注射劑安全性研究河南省工程實驗室)
August 2015.	Henan Fusen, our principal operating subsidiary, was recognized as a High New Technology Enterprise (高新技術企業) by Henan Department of Science and Technology (河南省科學技術廳)

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Year	Event
January 2016	We successfully obtained the GMP certifications for the production line of mixture (合劑生產車間) and the first pre-treatment and extraction of traditional Chinese medicine (藥前處理及提取車間) from the CFDA
December 2016. . .	We established an extensive nationwide sales and distribution network covering each of the 31 provinces, autonomous regions and centrally administered municipalities in the PRC

OUR CORPORATE DEVELOPMENT

Henan Fusen

Henan Fusen was established in the PRC on October 10, 2003 as a limited liability company with an initial registered capital of RMB10,880,000. Prior to the establishment of Henan Fusen, Mr. Cao Changcheng considered that it was imperative for Henan Fusen to strengthen its capital base and technical know-how, and he thus invited various professional personnel (including Mr. Hou Taisheng, Mr. Chi Yongsheng and Ms. Meng Qingfen, our executive Directors, and Mr. Fu Jiancheng, our vice president, and seven other individuals who were former and present employees of our Group, together the “**Other Individual Shareholders**”) with capital, knowledge, expertise and/or established business networks to join him at the early stage of establishment to pave the way for Henan Fusen to enter into the PCM cold medicine industry. Mr. Cao Changcheng became acquainted with these professional personnel during his tenure of service at Henan Xichuan Pharmaceutical. A number of individuals (the “**Individual Investors**”) also made capital contributions through the Other Individual Shareholders, and the Other Individual Shareholders were entrusted to hold the equity interest in Henan Fusen for them. The capital contributions made by Mr. Cao, being the single largest shareholder then, the Other Individual Shareholders and the Individual Investors, were funded through their own financial resources. Such registered capital was fully paid up. Our PRC Legal Adviser confirmed that such entrustment arrangement was not in violation of PRC law. The table below set forth the shareholding structure of Henan Fusen and the respective equity contribution amounts of Mr. Cao Changcheng and the Other Individual Shareholders immediately after its establishment:

<u>Shareholder</u>	<u>Approximate shareholding</u>	<u>Corresponding contribution amount to the registered capital</u>
	%	RMB
Mr. Cao Changcheng	18.38	2,000,000
Mr. Hou Taisheng ^(Note)	7.35	800,000
Mr. Chi Yongsheng ^(Note)	7.35	800,000
Ms. Meng Qingfen ^(Note)	7.35	800,000
Mr. Fu Jiancheng ^(Note)	6.62	720,000
Seven other individual shareholders ^(Note)	52.95	5,760,000
Total:	100	10,880,000

Note: Including the equity interest held on behalf of the Individual Investors.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

In order to fund our business growth and expansion, in March 2010, the registered capital of Henan Fusen was increased from RMB10,880,000 to RMB70,880,000. The additional registered capital in the amount of RMB60,000,000 was funded by (i) capitalization of part of the undistributed profits of Henan Fusen as at December 31, 2009 in the amount of RMB41,344,000; (ii) capitalization of part of its capital reserve as at December 31, 2009 in the amount of RMB10,880,000; and (iii) cash contribution in the amount of RMB7,776,000 by the then shareholders of Henan Fusen. Such capital increase was duly completed and settled in March 2010. Our PRC Legal Adviser confirmed that necessary approvals have been obtained from the relevant PRC government authorities regarding the aforesaid capital increase of Henan Fusen. Immediately after the said capital increase, Mr. Cao Changcheng remained the single largest shareholder of Henan Fusen. The table below set forth the shareholding structure of Henan Fusen immediately after the said capital increase in March 2010:

Shareholder	Approximate shareholding	Corresponding contribution amount to the registered capital
	%	RMB
Mr. Cao Changcheng	19.04	13,496,000
Mr. Hou Taisheng ^(Note)	7.77	5,510,000
Mr. Chi Yongsheng ^(Note)	7.77	5,510,000
Ms. Meng Qingfen ^(Note)	7.77	5,510,000
Mr. Fu Jiancheng ^(Note)	6.61	4,686,000
Seven other individual shareholders ^(Note)	51.04	36,168,000
Total:	100	70,880,000

Note: Including the equity interest held on behalf of the Individual Investors.

In July 2012, the entrustment arrangement at the establishment of Henan Fusen was re-confirmed, and various rounds of equity transfer were effected among the Other Individual Shareholders and the Individual Investors to unwind the initial entrustment arrangement for administrative convenience. No consideration was payable by the relevant transferees because such equity transfers were made in order to reflect and formalize the then existing beneficial ownership structure of Henan Fusen. In addition, in August 2012, Mr. Cao Changcheng and two other former and present employees of our Group acquired approximately 1.96%, 3.03% and 0.33% equity interest from two of the Other Individual Shareholders at a consideration of RMB1,392,000, RMB2,146,000 and RMB232,000, respectively, which were determined based on the then registered capital of Henan Fusen. The consideration was fully settled. After completion of the aforesaid equity transfers, Mr. Cao Changcheng, who was interested in approximately 35.079% equity interest, remained the single largest shareholder of Henan Fusen and 44

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

other individual shareholders were interested in an aggregate of approximately 64.921% equity interest in Henan Fusen. The following table set forth the shareholding structure of Henan Fusen after completion of the said equity transfers in August 2012:

Shareholder	Approximate shareholding	Corresponding contribution amount to the registered capital
	<i>%</i>	<i>RMB</i>
Mr. Cao Changcheng	35.079	24,864,000
Mr. Hou Taisheng	4.828	3,422,000
Mr. Chi Yongsheng	4.664	3,306,000
Ms. Meng Qingfen	4.255	3,016,000
Mr. Fu Jiancheng	4.647	3,294,000
40 other individual shareholders ^(Note)	46.527	32,978,000
Total:	100	70,880,000

Note: The approximate shareholdings of these individual shareholders ranged from 0.246% to 4.664%.

In December 2014 and January 2015, further equity transfers took place whereby two former shareholders disposed of an aggregate of approximately 7.69% equity interests in Henan Fusen to 13 existing shareholders and five new incoming shareholders who were present or former employees of our Group at an aggregate consideration of RMB5,452,000, which was determined based on the then registered capital of Henan Fusen. The consideration was fully settled. After completion of the aforesaid equity transfers and before the Reorganization, Mr. Cao Changcheng, who was interested in approximately 35.079% equity interest, remained the single largest shareholder of Henan Fusen whereas 47 other individual shareholders were interested in an aggregate of approximately 64.921% equity interest in Henan Fusen. The shareholding structure of Henan Fusen was as follows:

Shareholder	Approximate shareholding	Corresponding contribution amount to the registered capital
	<i>%</i>	<i>RMB</i>
Mr. Cao Changcheng	35.079	24,864,000
Mr. Hou Taisheng	4.828	3,422,000
Mr. Chi Yongsheng	4.664	3,306,000
Ms. Meng Qingfen	4.255	3,016,000
Mr. Fu Jiancheng	4.647	3,294,000
43 other individual shareholders ^(Note)	46.527	32,978,000
Total:	100	70,880,000

Note: The approximate shareholdings of these individual shareholders ranged from 0.246% to 4.664%.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Fushan Medicinal Packaging

Fushan Medicinal Packaging was established in the PRC on July 31, 2003 as a limited liability company with an initial registered capital of RMB1,090,000 which was fully paid in cash by the then shareholders of Fushan Medicinal Packaging. Upon its establishment, Fushan Medicinal Packaging was owned as to approximately 45.9% by an independent third party, 9.2% by Mr. Cao Changcheng, 9.2% by Mr. Hou Taisheng, 3.7% by Mr. Chi Yongsheng, 0.9% by Ms. Meng Qingfen, 4.6% by Mr. Fu Jiancheng and 26.5% by 13 other individual shareholders who were our Group's former or present employees. Fushan Medicinal Packaging principally carried on the business of packaging of PCM cold medicines in the PRC at the time of its establishment.

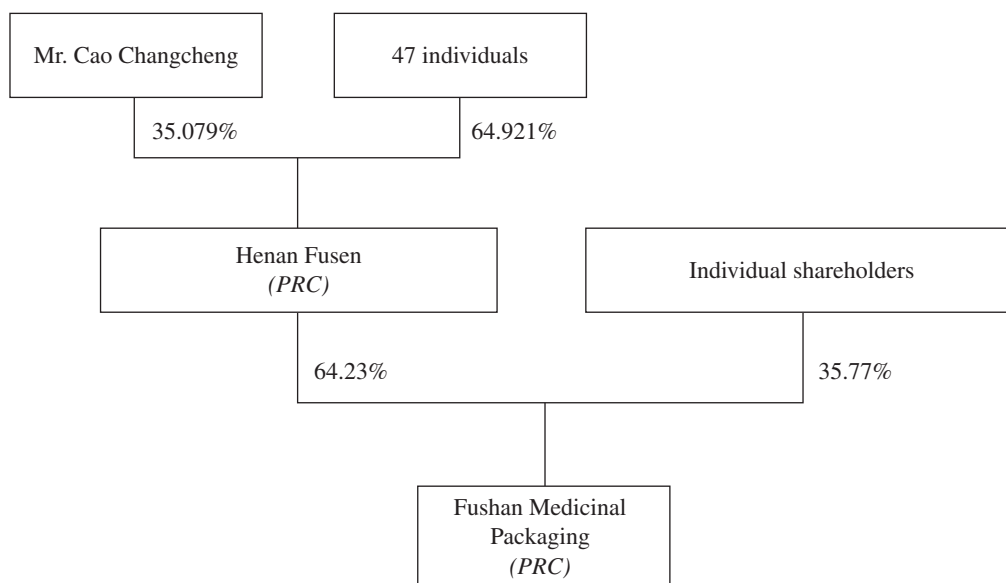
In April 2004, the registered capital of Fushan Medicinal Packaging was increased from RMB1,090,000 to RMB2,600,000. The additional registered capital in the amount of RMB1,510,000 was funded by (i) capitalization of the indebtedness in the amount of RMB1,410,000 due from Fushan Medicinal Packaging as debtor to Henan Fusen and four individuals as creditors; and (ii) cash injection of RMB100,000 by an individual. Our PRC Legal Adviser confirmed that necessary approvals have been obtained from the relevant PRC government authorities regarding the aforesaid capital increase of Fushan Medicinal Packaging. Immediately after the said capital increase, Fushan Medicinal Packaging was owned as to approximately 44.62% equity interest by Henan Fusen, being the single largest shareholder, 19.23% by an independent third party, 3.85% by Mr. Cao Changcheng, 3.85% by Mr. Hou Taisheng, 1.54% by Mr. Chi Yongsheng, 0.38% by Ms. Meng Qingfen, 1.92% by Mr. Fu Jiancheng and 24.61% by 17 other individual shareholders.

In December 2011, to consolidate our control over Fushan Medicinal Packaging, Henan Fusen acquired an aggregate of approximately 19.62% equity interest in Fushan Medicinal Packaging whereas 12 individuals, who were independent third parties, acquired an aggregate of approximately 4.62% at an aggregate consideration of RMB630,000, which was determined based on the then registered capital of Fushan Medicinal Packaging. The consideration was fully settled. After completion of the aforesaid equity transfers, Fushan Medicinal Packaging became our non-wholly-owned subsidiary which was owned as to approximately 64.23% by Henan Fusen, 3.85% by Mr. Cao Changcheng, 3.85% by Mr. Hou Taisheng, 1.54% by Mr. Chi Yongsheng, 0.38% by Ms. Meng Qingfen, 1.92% by Mr. Fu Jiancheng and 24.23% by 28 other individual shareholders, each holding less than 3.85% equity interest.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

REORGANIZATION

The following chart sets forth the corporate structure of our Group immediately prior to the Reorganization:



In preparation for the Global Offering and the Listing, the companies comprising our Group underwent the Reorganization, pursuant to which our Company became the ultimate holding company of our Group. Details of the Reorganization are set out below:

(a) Incorporation of Full Bliss as one of our Controlling Shareholders

Full Bliss was incorporated in the BVI on November 30, 2012 and is authorized to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On January 8, 2013, one share was allotted and issued at par to Mr. Cao Dudu, our executive Director and the chief executive officer of our Company. Such share was beneficially owned by Mr. Cao Dudu. On October 28, 2016, such share was transferred to Mr. Cao Changcheng, one of our Controlling Shareholders, Chairman and executive Director, at par.

(b) Incorporation of our Company and allotment of Shares to Full Bliss

- (i) Our Company was incorporated in the Cayman Islands on January 18, 2013 to act as the listing vehicle for purpose of the Listing. Upon incorporation, the initial authorized share capital of our Company was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each, of which one Share was allotted and issued at par to the initial subscriber (an independent third party), which was transferred to Full Bliss on the same day. On February 26, 2013, our Company allotted and issued 780 Shares to Full Bliss fully paid at par as consideration for the acquisition of one share in Jinli by our Company from Mr. Cao Dudu (as detailed in paragraph (e) below).

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (ii) On June 24, 2013, it was resolved that the authorized share capital of our Company was increased from HK\$380,000 to HK\$3,000,000 by the creation of an additional 262,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects. On the same day, our Company allotted and issued 70,879,219 Shares to Full Bliss at par value, which was fully paid up. Immediately after such issue and allotment, the number of Shares in issue was 70,880,000.

(c) Establishment of the Fusen Trust

- (i) On June 14, 2013, a deed of settlement between Mr. Cao Dudu, who was acting on behalf of and under the authorization and instructions of Mr. Cao Changcheng, as settlor, and Vistra Trust (Labuan) Limited as trustee was executed for the establishment of the Fusen Trust. Vistra Trust (Labuan) Limited (the “Trustee”) is a professional trustee and an independent third party.
- (ii) With effect from December 14, 2016, Mr. Cao Changcheng has been appointed as the protector of the Fusen Trust who has the power to remove the trustee and appoint new trustee for the Fusen Trust. Mr. Cao Changcheng has also been appointed as the investment manager of the Fusen Trust who is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford and direct the trustee of the Fusen Trust to vote accordingly.
- (iii) On December 14, 2016, a deed of alteration was executed between Mr. Cao Dudu, the Trustee and the 47 individuals (who held equity interest in Henan Fusen prior to the Reorganization) as a result of the change in the equity ownership of approximately 64.921% equity interests in Henan Fusen that took place in December 2014 and January 2015. As disclosed in the paragraph headed “— Our corporate development — Henan Fusen” above, in December 2014 and January 2015, certain equity transfers took place whereby two former individual shareholders disposed of an aggregate of approximately 7.69% equity interests to 13 existing shareholders and five new incoming shareholders. After completion of the aforesaid equity transfers, 64.921% equity interest in Henan Fusen were held by 47 individual shareholders. In light of such equity transfers, the deed of alteration was executed for the purpose of, among other things, (i) increasing the number of beneficiaries from 44 to 47 and (ii) altering the proportion of interest of the beneficiaries under the Fusen Trust to align with their equity interests in Henan Fusen as at January 2015 prior to the Reorganization, details of which are set out in the paragraph headed “— Our corporate development — Henan Fusen” above.

(d) Incorporation of Rayford as trust assets of the Fusen Trust

- (i) Rayford was incorporated on February 26, 2013 and is authorized to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On April 3, 2013, one share was allotted and issued at par to the initial subscriber, an independent third party.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (ii) On June 17, 2013, the one share issued by Rayford was transferred to the Trustee. Pursuant to the Fusen Trust, the Trustee holds the entire shareholding of Rayford, which formed the trust fund under the Fusen Trust (the “**Trust Fund**”), on trust for the benefit of 44 individual shareholders (including Mr. Hou Taisheng, Mr. Chi Yongsheng and Ms. Meng Qingfen, our executive Directors, Mr. Fu Jiancheng, our vice president, and 40 other individuals being the former and present employees of our Group, who held equity interest in Henan Fusen at that time) as the beneficiaries. The Trustee held the Trust Fund for the beneficiaries in fixed proportions under the Fusen Trust which mirrored their then equity interests in Henan Fusen.
- (iii) On June 24, 2013, Full Bliss transferred 46,016,000 Shares of our Company to Rayford at a consideration of HK\$460,160 which was fully paid. Immediately after such transfer, our Company was owned as to approximately 35.079% by Full Bliss and approximately 64.921% by Rayford. The said 64.921% equity interest in our Company held by Rayford formed part of the Trust Fund which in turn is held by the Trustee under the Fusen Trust.

(e) Incorporation of Jinli as our intermediate BVI holding company

Jinli was incorporated in the BVI on November 13, 2012 to act as the intermediate holding company of our Group and is authorized to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On November 22, 2012, one share was allotted and issued at par to Mr. Cao Dudu and the said share was transferred to our Company at par on February 26, 2013 at a consideration to be satisfied by the allotment and issue of 780 Shares in the share capital of our Company to Full Bliss on February 26, 2013.

(f) Incorporation of Cloud Dollar as our intermediate Hong Kong holding company

Cloud Dollar was incorporated in Hong Kong on November 1, 2012 with an authorized share capital of HK\$10,000 divided into 10,000 shares with the then par value of HK\$1.00 each to act as the intermediate holding company of our Group. Upon incorporation, one share was allotted and issued to the initial subscriber (an independent third party) at a consideration of HK\$1.00 and on November 26, 2012, such share was transferred to Jinli at a consideration of HK\$1.00.

(g) Establishment of Nanyang Hengsheng as our intermediate holding company in the PRC

Nanyang Hengsheng was established in the PRC on December 12, 2012 as a wholly foreign-owned enterprise with a registered capital of US\$1,600,000. The registered capital of Nanyang Hengsheng was increased to US\$8,000,000 in October 23, 2017 which was expected to be fully paid up by November 2018. Our PRC Legal Adviser confirmed that necessary approvals have been obtained from the relevant PRC government authorities regarding the aforesaid capital increase of Nanyang Hengsheng. Upon its establishment, Nanyang Hengsheng was wholly-owned by Cloud Dollar. Upon completion of the Reorganization, Nanyang Hengsheng is the holding company of Henan Fusen and does not carry out any business activities.

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(h) Establishment of Fusen Shiye

Fusen Shiye was established in the PRC on September 29, 2016 as a limited liability company with a registered capital of RMB70,880,000, of which (i) RMB24,864,000 was contributed by Mr. Cao Changcheng by way of transfer of his share of registered capital of the same amount in Henan Fusen to Fusen Shiye; and (ii) RMB46,016,000 was contributed by 47 individual shareholders (including Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen and Mr. Fu Jiancheng) by way of transfer of their respective shares of registered capital of the same amount in Henan Fusen to Fusen Shiye. Upon the establishment of Fusen Shiye, it was owned as to approximately 35.079% by Mr. Cao Changcheng and approximately 64.921% by 47 other individual shareholders. On October 26, 2016, Fusen Shiye was the holding company of Henan Fusen and did not carry out any business activities.

(i) Capital increase in Fusen Shiye

On November 9, 2016, the registered capital of Fusen Shiye was increased from RMB70,880,000 to RMB92,032,000. The additional registered capital in the amount of RMB21,152,000 was contributed by Mr. Cao Changcheng in cash. Such capital increase was duly completed and settled. Our PRC Legal Adviser confirmed that necessary approvals have been obtained from the relevant PRC government authorities regarding the aforesaid capital increase of Fusen Shiye. Immediately after the said capital increase, Fusen Shiye was owned as to 50% by Mr. Cao Changcheng and 50% by 47 other individual shareholders.

(j) Capital increase in our Company

On November 21, 2016, to mirror the shareholding structure of Fusen Shiye as referred to in paragraph (i) above, the issued share capital of our Company was increased from HK\$708,800 to HK\$920,320 by the subscription of additional 21,152,000 Shares by Full Bliss. Immediately after the said share subscription, the number of Shares in issue increased to 92,032,000 Shares, of which 46,016,000 Shares, representing 50% of the then enlarged issued capital of our Company, were held by Full Bliss (a company wholly-owned by Mr. Cao Changcheng) and 46,016,000 Shares, representing 50% of the then enlarged issued capital of our Company, were held by Rayford.

(k) Acquisition of approximately 6.66% equity interest in Henan Fusen by Wealth Depot (HK)

In order to allow more accessible offshore financing opportunities and provide a financing platform to satisfy our Group's capital needs, we considered that it is beneficial to our Group to establish Henan Fusen as a foreign-invested enterprise. On December 5, 2016, Fusen Shiye and Wealth Depot (HK), a company incorporated in Hong Kong and wholly-owned by Wealth Depot, an independent third party, entered into the Capital Increase Agreement with Henan Fusen pursuant to which Wealth Depot (HK) agreed to contribute RMB7,481,900 in cash, of which RMB5,057,400 was credited as the registered capital of Henan Fusen and RMB2,424,500 was credited as capital reserves of Henan Fusen. The said amount of capital contribution was determined based on the valuation of the net asset of Henan Fusen as at November 26, 2016 appraised by an independent valuer. Such capital contribution was duly settled by Wealth Depot (HK) utilizing its own financial resources in March 2017. Immediately after the said capital increase, Henan Fusen became a sino-foreign equity joint venture with an increased registered capital of RMB75,937,400, and was

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owned as to approximately 93.34% by Fusen Shiye and approximately 6.66% by Wealth Depot (HK). Our PRC Legal Adviser confirmed that necessary approvals have been obtained from the relevant PRC government authorities regarding the aforesaid capital increase which was completed on March 1, 2017. For further details of the investments made by Wealth Depot (HK) in Henan Fusen, please refer to the paragraph headed “Pre-IPO Investments” in this section below.

(l) Acquisition of approximately 21.92% equity interest in Fushan Medicinal Packaging by Henan Fusen

To further consolidate our control over Fushan Medicinal Packaging, on March 7, 2017, Henan Fusen acquired an aggregate of approximately 21.92% equity interest in Fushan Medicinal Packaging from Mr. Cao Changcheng, Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen, Mr. Fu Jiancheng and 11 other individuals at an aggregate consideration of RMB570,000, which was determined based on the registered capital of Fushan Medicinal Packaging. The consideration was fully settled. After completion of the aforesaid equity transfers, Fushan Medicinal Packaging continued to be our non-wholly-owned subsidiary which was owned as to approximately 86.15% by Henan Fusen and approximately 13.85% by 17 individual shareholders who were our Group’s present or former employees and their approximate shareholdings ranged from 0.38% to 3.85%.

(m) Acquisition of approximately 93.34% equity interest in Henan Fusen by Nanyang Hengsheng

On March 19, 2017, Nanyang Hengsheng entered into an equity transfer agreement with Fusen Shiye whereby Nanyang Hengsheng agreed to acquire 93.34% equity interest in Henan Fusen at a consideration of RMB92,032,000 which was determined with reference to the registered capital of Henan Fusen in the amount of RMB70,880,000 and the additional registered capital in the amount of RMB21,152,000 contributed by Mr. Cao Changcheng into Fusen Shiye, the then holding company of Henan Fusen. Such consideration was fully settled on March 29, 2017. Immediately after the said equity transfer, Henan Fusen became an indirect subsidiary of our Company and was owned as to approximately 93.34% by Nanyang Hengsheng and approximately 6.66% by Wealth Depot (HK). Our PRC Legal Adviser confirmed that all approvals have been obtained from the relevant PRC government authorities regarding the aforesaid equity transfer which was completed on March 30, 2017.

(n) Acquisition of Wealth Depot (HK)

On March 19, 2017, the Share Transfer Agreement was entered into between, among others, Jinli and Wealth Depot whereby Jinli agreed to acquire 100% shareholding of Wealth Depot (HK), which held approximately 6.66% equity interest in Henan Fusen, at a consideration satisfied by the allotment and issue of 6,566,672 Shares by our Company to Wealth Depot, credited as fully paid up. After the said acquisition, (i) Henan Fusen became an indirect wholly-owned subsidiary of our Company and (ii) our Company was owned as to approximately 46.67% by Full Bliss (a company wholly-owned by Mr. Cao Changcheng), approximately 46.67% by Rayford and approximately 6.66% by Wealth Depot.

Immediately after completion of the Reorganization, our Company became the holding company of our Group.

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PRE-IPO INVESTMENTS

Overview

Acquisition of approximately 6.66% equity interest in Henan Fusen by Wealth Depot (HK)

For details, please refer to the paragraph headed “Reorganization — (k) Acquisition of approximately 6.66% equity interest in Henan Fusen by Wealth Depot (HK)” of this section above.

Acquisition of approximately 6.66% shareholding in our Company by Wealth Depot

For details, please refer to the paragraph headed “Reorganization — (n) Acquisition of Wealth Depot (HK)” of this section above.

Share subscription by One Victory and First Joint Elegant

On August 10, 2017, One Victory, a company incorporated in BVI and wholly-owned by Mr. Cao Dudu, our executive Director and the chief executive officer of our Company, and First Joint Elegant, a company incorporated in BVI and wholly-owned by Mr. Lam Yiu Por, an independent third party (“**Mr. Lam**”), entered into the Share Subscription Agreement with our Company pursuant to which One Victory and First Joint Elegant agreed to subscribe for 44,441,428 Shares and 10,206,204 Shares, respectively, at the total cash consideration of RMB50,929,876.488 and RMB11,696,309.784, respectively. The parties commenced the negotiations in April 2017 and a memorandum of understanding setting out the intended key terms of the share subscription (including the subscription price) was entered into in the same month. The subscription price of approximately RMB1.146 per Share was determined after arm’s length negotiations between the parties taking into account the valuation of our Group as agreed between the parties with reference to the financial position of our Group at the time of the signing of the memorandum of understanding, our growth prospects in the PCM cold medicine market in the PRC, the timing of the investments and the equity risk assumed by One Victory and First Joint Elegant in investing in an unlisted company. The said cash consideration was duly settled by One Victory and First Joint Elegant on December 2, 2017 and November 7, 2017, respectively, utilising their own financial resources. Immediately after completion of the said share subscriptions, our Company was owned as to approximately 30.03% by Full Bliss, 30.03% by Rayford, 4.29% by Wealth Depot, 29.00% by One Victory and 6.66% by First Joint Elegant.

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Share purchase by China Resources Pharmaceutical Fund from One Victory and Wealth Depot

On December 14, 2017, the Share Purchase Agreement was entered into between, among others, China Resources Pharmaceutical Fund, a limited liability partnership established in the PRC and controlled by independent third parties, One Victory, Wealth Depot and our Company whereby China Resources Pharmaceutical Fund agreed to purchase 12,041,294 Shares and 3,283,336 Shares, respectively, from One Victory and Wealth Depot at the total cash consideration of RMB70,717,300 and RMB19,282,699, respectively. The consideration of approximately RMB5.873 per Share was determined after arm's length negotiations between the parties taking into account the valuation of our Group as agreed between the parties with reference to the valuation of the fair value of our Group as appraised by an independent valuer appointed by China Resources Pharmaceutical Fund, the financial position of our Group, our growth prospects in the PCM cold medicine market in the PRC and various special rights granted to China Resources Pharmaceutical Fund, details of which are set out in the paragraph headed "Further details of the Pre-IPO Investments" of this section below. The said cash consideration was duly settled by China Resources Pharmaceutical Fund utilising its own financial resources on December 29, 2017.

China Resources Pharmaceutical Fund initially proposed to invest in our Company by way of subscription of new Shares which could result in dilution of shareholding interest of all existing Shareholders. To avoid Mr. Cao Changcheng's shareholding interest being further diluted by a share subscription, it was agreed that (a) One Victory sold 12,041,294 Shares to China Resources Pharmaceutical Fund in accordance with the direction and instruction given by Mr. Cao Changcheng to Mr. Cao Dudu (who is the sole shareholder of One Victory and accustomed to act in accordance with the instructions of Mr. Cao Changcheng); and (b) Wealth Depot sold 3,283,336 Shares to China Resources Pharmaceutical Fund for the following reasons: (i) Wealth Depot confirmed that its investments in our Company are not considered long-term investments which may be speculative in nature; and (ii) considering the significant increase in our Group's valuation from RMB1.146 per Share in April 2017 to RMB5.873 per Share in December 2017 and the status of our listing application which remained relatively uncertain at that time, Wealth Depot considered that the share sale under the Share Purchase Agreement represented a good opportunity to realize an attractive return on part of its investments in our Company. Wealth Depot has continued to hold the remaining Shares because it is confident about our growth prospects in the PCM cold medicine market in the PRC.

The following factors account for the significant increase in our Group's valuation between April 2017 and December 2017 (from a subscription price of RMB1.146 per Share under the Share Subscription Agreement to RMB5.873 per Share under the Share Purchase Agreement):

- (a) *Timing of the investments:* At the time when the memorandum of understanding was executed by One Victory and First Joint Elegant in April 2017 in respect of their share subscriptions, the progress of preparation and the expected time for submission of our listing application were relatively uncertain. Hence, One Victory and First Joint Elegant assumed relatively higher equity risk in investing in an unlisted company. On the other hand, China Resources Pharmaceutical Fund agreed to invest in our Company in December 2017 when our preparation of the listing application is close to submission stage i.e. approximately one month prior to submission of our listing application.

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- (b) *Financial position of our Group:* The financial guarantees issued by our Group were yet to be released in April 2017 whereas such financial guarantees were released at the time when China Resources Pharmaceutical Fund agreed to invest in our Company in December 2017.
- (c) *Special rights:* China Resources Pharmaceutical Fund was given various special rights under the Share Purchase Agreement (details of which are set out in the paragraph headed “Further details of the Pre-IPO Investments” of this section below) whereas One Victory and First Joint Elegant were never given such special rights under the Share Subscription Agreement.

Immediately after completion of the said share purchase, our Company was owned as to approximately 30.03% by Full Bliss, 30.03% by Rayford, 2.14% by Wealth Depot, 21.14% by One Victory, 6.66% by First Joint Elegant and 10% by China Resources Pharmaceutical Fund.

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Further details of the Pre-IPO Investments

The following table sets out further details on the Pre-IPO Investments:

Name of the Pre-IPO Investors:	Wealth Depot	One Victory	First Joint Elegant	China Resources Pharmaceutical Fund
<p>Background and source of fund of the Pre-IPO Investors</p>	<p>Wealth Depot (HK) was a special purpose vehicle wholly-owned by Wealth Depot prior to the acquisition by Jini. Wealth Depot was incorporated on September 23, 2013 in the Republic of Seychelles and wholly-owned by Ms. Ivy Connie Sun, an independent third party.</p> <p>Ms. Ivy Connie Sun ("Ms. Sun") is the sole shareholder of Wealth Depot. She is an investor who was then looking for investment opportunities in the PRC. Ms. Sun obtained a Bachelor of Laws in the Victoria University of Wellington in 2006. She is also the founding partner of an investment fund with an investment portfolio covering the real estate, financial and medical sectors.</p> <p>To the best of our knowledge, information and belief, she has been principally engaged in investment and financial consultancy business and was not involved in any business that competes or may compete with our business as at the Latest Practicable Date.</p> <p>Ms. Sun, through Wealth Depot, invested in our Group through her own financial resources.</p>	<p>One Victory, a company incorporated on July 4, 2017 in the BVI, was a special purpose vehicle wholly-owned by Mr. Cao Changcheng. One Mr. Cao Dudu, the chief executive officer of our Company, our executive Director and the son of Mr. Cao Changcheng. One Mr. Cao Changcheng, One Mr. Cao Dudu, the chief executive officer of our Company, our executive Director and the son of Mr. Cao Changcheng. One Mr. Cao Changcheng, One Mr. Cao Dudu, the chief executive officer of our Company, our executive Director and the son of Mr. Cao Changcheng.</p> <p>Through investing in our Company by his own financial resources, Mr. Cao Dudu, who is the son of Mr. Cao Changcheng, intends to further consolidate the voting control of his family under the leadership of Mr. Cao Changcheng.</p>	<p>First Joint Elegant, a company incorporated on July 28, 2016 in the BVI, was a special purpose vehicle wholly-owned by Mr. Lam, an independent third party. First Joint Elegant is an investment holding company.</p> <p>Mr. Lam was an investor who has been looking for investment opportunities in the PRC when he was first introduced to our Group through Mr. Cao Dudu, one of our executive Directors. Mr. Lam has been a Fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants since November 2007 and October 2004, respectively. Mr. Lam has also been a Chartered Financial Analyst of the Hong Kong Society of Financial Analyst since September 2006. Mr. Lam has substantial experience in the management and internal control of listed companies and he served as the non-executive director of Zhong Ao Home Group Limited (stock code: 1538) from April 2015 to May 2017. Mr. Lam has also been serving as an independent non-executive director of JNBY Design Limited (stock code: 3306), China Tontine Wines Group Limited (stock code: 389) and Denox Environmental & Technology Holdings Limited (stock code: 1452), respectively.</p> <p>To the best of our knowledge, information and belief, Mr. Lam has been principally engaged in accounting and was not involved in any business that competes or may compete with our business as at the Latest Practicable Date.</p> <p>Mr. Lam, through First Joint Elegant, invested in our Company through his own financial resources.</p>	<p>China Resources Pharmaceutical Fund is a limited partnership established in the PRC controlled by independent third parties. China Resources Pharmaceutical Fund was set up with an investment objective of investing in quality enterprises within the pharmaceutical industry in accordance with applicable PRC laws and regulations. China Resources Pharmaceutical Fund was first introduced to our Group through Mr. Cao Changcheng's business connections in the pharmaceutical sector and its affiliate is one of our distributors. Our Directors believe that China Resources Pharmaceutical Fund's investment in our Group demonstrates their confidence in our growth prospects in the PCM cold medicine market in the PRC.</p>
<p>Relationship with our Group:</p>	<p>Save as disclosed above and prior to completion of the Capital Increase Agreement, Wealth Depot, Wealth Depot (HK) and Ms. Sun and their respective associates were independent third parties and did not have any past or present relationships, including but not limited to family, trust, business, employment relationships or any agreements, arrangements or understanding with our Group and/or our connected persons.</p>	<p>Save as disclosed above and prior to completion of the Share Subscription Agreement, First Joint Elegant and Mr. Lam and their respective associates were independent third parties and did not have any past or present relationships, including but not limited to family, trust, business, employment relationships or any agreements, arrangements or understanding with our Group and/or our connected persons.</p>	<p>Save as disclosed above and prior to completion of the Share Purchase Agreement, China Resources Pharmaceutical Fund and its associates were independent third parties and did not have any past or present relationships, including but not limited to family, trust, business, employment relationships or any agreements, arrangements or understanding with our Group and/or our connected persons.</p>	

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Name of the Pre-IPO Investors:	Wealth Depot	One Victory	First Joint Elegant	China Resources Pharmaceutical Fund
Relevant Pre-IPO investment agreements:	Capital Increase Agreement	Share Subscription Agreement	Share Subscription Agreement	Share Purchase Agreement
Date of the agreement	December 5, 2016	August 10, 2017	August 10, 2017	December 14, 2017
Amount of consideration paid	RMB7,481,900 (in which RMB5,057,400 was credited as registered capital of Henan Fusen)	RMB50,929,876,488 (approximately RMB1.146 per Share)	RMB11,696,309,784 (approximately RMB1.146 per Share)	RMB89,999,999 (of which RMB70,717,300 was paid to One Victory and RMB19,282,699 was paid to Wealth Depot) (approximately RMB5.873 per Share)
Completion of the capital increase/subscription/purchase	March 1, 2017	August 10, 2017	August 10, 2017	December 14, 2017
Payment date of consideration:	March 17, 2017	December 2, 2017	November 7, 2017	December 29, 2017
Basis of determination of the consideration:	The consideration was determined based on the valuation of the net asset of Henan Fusen as at November 26, 2016 appraised by an independent valuer.	The parties commenced the negotiations in April 2017 and a memorandum of understanding setting out the key terms of the share subscription was entered into in the same month. The considerations were determined after arm's length negotiations between the parties taking into account, among others, the valuation of our Group as agreed between the parties with reference to the financial position of our Group at the time of the signing of the memorandum of understanding and our growth prospects in the PCM cold medicine market in the PRC.	The parties commenced the negotiations in April 2017 and a memorandum of understanding setting out the key terms of the share subscription was entered into in the same month. The considerations were determined after arm's length negotiations between the parties taking into account, among others, the valuation of our Group as agreed between the parties with reference to the financial position of our Group at the time of the signing of the memorandum of understanding and our growth prospects in the PCM cold medicine market in the PRC.	The considerations were determined after arm's length negotiations between the parties taking into account the valuation of our Group as agreed between the parties with reference to the valuation of the fair value of our Group as appraised by an independent valuer appointed by China Resources Pharmaceutical Fund, the financial position of our Group, our growth prospects in the PCM cold medicine market in the PRC and various special rights granted to China Resources Pharmaceutical Fund.
Shareholding of Wealth Depot (HK) in Henan Fusen upon completion of the Capital Increase Agreement:	6.66%	Not applicable	Not applicable	Not applicable
Shares issued/transferred under the Pre-IPO Investments	6,566,672 Shares	44,441,428 Shares	10,206,204 Shares	15,324,630 Shares
Percentage of shareholding in our Company upon completion of the relevant Pre-IPO Investments	6.66%	29.00%	6.66%	10%
Number of Shares to be held and percentage of shareholdings in our Company upon Listing (without taking into account any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option)	12,840,000 Shares (approximately 1.61%)	126,840,000 Shares (approximately 15.86%)	39,960,000 Shares (approximately 5.00%)	60,000,000 Shares (approximately 7.50%)

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Name of the Pre-IPO Investors:	Wealth Depot	One Victory	First Joint Elegant	China Resources Pharmaceutical Fund
Approximate cost per Share	HK\$0.71	HK\$0.49	HK\$0.36	HK\$1.83
Approximate discount to the mid-point of the Offer Price range	72.6%	80.4%	85.6%	26.8%
Use of proceeds from the capital increase/share subscription pursuant to the Pre-IPO Investments:	<p>The proceeds from the capital increase pursuant to the Capital Increase Agreement had been fully utilized as the registered capital and capital reserves of Henan Fusen.</p>	<p>The proceeds from share subscription agreement had been partly utilized as the general working capital of our Group.</p> <p>The aggregate proceeds of approximately HK\$73.9 million, after deducting all costs and expenses incurred, were intended to be used for the development and expansion of our business and/or payment of expenses in relation to the Listing.</p> <p>As at the Latest Practicable Date, approximately 86.2% of the proceeds had been utilized for payment of part of the expenses in relation to the Listing, for our general working capital and for increasing the registered capital of Naanyang Hengsheng, our wholly-owned subsidiary.</p>	<p>Not applicable</p>	<p>Not applicable</p>
Strategic benefits the Pre-IPO Investor brought to our Group:	<p>Our Group benefits from the funding provided by Wealth Depot (HK) to finance our general working capital requirement.</p>	<p>Our Group benefits from the funding provided by One Victory and First Joint Elegant to finance our general working capital and business development of our Group.</p>	<p>We expect to benefit from our strategic relation with China Resources Pharmaceutical Fund and achieve synergies by generating more cross selling business opportunities. Besides, China Resources Pharmaceutical Fund's investment in our Group demonstrates confidence in the business development and prospects of our Group.</p>	<p>We expect to benefit from our strategic relation with China Resources Pharmaceutical Fund and achieve synergies by generating more cross selling business opportunities. Besides, China Resources Pharmaceutical Fund's investment in our Group demonstrates confidence in the business development and prospects of our Group.</p>
Lock-up restrictions:	<p>The Shares held by each of Wealth Depot, One Victory, First Joint Elegant and China Resources Pharmaceutical Fund are respectively subject to a 6-month lock-up undertaking after Listing, details of which are set out in the section headed "Underwriting" in this prospectus"</p>	<p>Since the sole shareholder of One Victory, Mr. Cao Dudi, is an executive Director and One Victory owns over 10% of the shareholding of our Company upon Listing, the Shares held by One Victory will not be counted as part of the public float of our Company.</p>	<p>Given that (i) the shareholding of First Joint Elegant in our Company upon Listing is less than 10%; (ii) First Joint Elegant is a financial investor of our Group; and (iii) it is an independent third party, the Shares held by First Joint Elegant will be counted as part of the public float of our Company.</p>	<p>Given that (i) the shareholding of China Resources Pharmaceutical Fund in our Company upon Listing is less than 10%; (ii) China Resources Pharmaceutical Fund is a strategic investor of our Group; and (iii) it is an independent third party, the Shares held by China Resources Pharmaceutical Fund will be counted as part of the public float of our Company.</p>
Public float under Rule 8.08 of the Listing Rules:	<p>Given that (i) the shareholding of Wealth Depot in our Company upon Listing is less than 10%; (ii) Wealth Depot is a financial investor of our Group; and (iii) it is an independent third party, the Shares held by Wealth Depot will be counted as part of the public float of our Company.</p>	<p>Since the sole shareholder of One Victory, Mr. Cao Dudi, is an executive Director and One Victory owns over 10% of the shareholding of our Company upon Listing, the Shares held by One Victory will not be counted as part of the public float of our Company.</p>	<p>Given that (i) the shareholding of First Joint Elegant in our Company upon Listing is less than 10%; (ii) First Joint Elegant is a financial investor of our Group; and (iii) it is an independent third party, the Shares held by First Joint Elegant will be counted as part of the public float of our Company.</p>	<p>Given that (i) the shareholding of China Resources Pharmaceutical Fund in our Company upon Listing is less than 10%; (ii) China Resources Pharmaceutical Fund is a strategic investor of our Group; and (iii) it is an independent third party, the Shares held by China Resources Pharmaceutical Fund will be counted as part of the public float of our Company.</p>

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

Name of the Pre-IPO Investors:	Wealth Depot	One Victory	First Joint Elegant	China Resources Pharmaceutical Fund
<p>Special Rights:</p> <p>Save and except that Wealth Depot (HK) was granted pre-emptive right with respect to Henan Fusen, Ms. Sun and Wealth Depot were never granted any special rights by our Group.</p>	<p>Mr. Cao Dudu, Mr. Lam, One Victory and First Joint Elegant were never granted any special right by our Group.</p>	<p>China Resources Pharmaceutical Fund is entitled to the following special rights which do not apply to the Reorganization, the Capitalization Issue, any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme:</p> <p>(a) Right to appoint a Director — Subject to compliance with all applicable laws and/or regulations of all applicable jurisdictions and the Stock Exchange, China Resources Pharmaceutical Fund is entitled to appoint one executive Director or one non-executive Director to the Board of our Company and one director to the board of Henan Fusen respectively upon completion of the Share Purchase Agreement.</p> <p>As at the Latest Practicable Date, Mr. Wang Jianhang was nominated by China Resources Pharmaceutical Fund and was appointed as a non-executive Director of our Company.</p> <p>Such appointment right shall terminate upon Listing.</p> <p>(b) Prior consent for certain corporate actions — Until the Listing occurs, written consent from China Resources Pharmaceutical Fund should be obtained for any financing of our Company (excluding the Listing) equity and/or loan financing over the amount of RMB50,000,000.</p> <p>(c) Put option — China Resources Pharmaceutical Fund is granted a put option to, but not an obligation to, require Mr. Cao Changcheng and/or One Victory to purchase all of its equity interest in our Company in the event that our Listing does not take place before December 31, 2018. Pursuant to the Share Purchase Agreement, the option price is the sum of the invested capital and the corresponding investment income as calculated by way of an annual 8% compound rate of return on investment.</p> <p>(d) Information rights — China Resources Pharmaceutical Fund is entitled to copies of the accounts and financial statements of Henan Fusen on a regular basis. Also, China Resources Pharmaceutical Fund has the right to inspect and copy documents such as the minutes of shareholder meetings, board resolutions, financial reports of our Company and/or Henan Fusen and any other documents or information which may affect its rights. China Resources Pharmaceutical Fund also has the right to inspect the accounting books of our Company and/or Henan Fusen. Upon Listing, the above rights shall terminate and cease to be effective and China Resources Pharmaceutical Fund will only be entitled to access information of our Company as a shareholder of our Company according to the Listing Rules and relevant law and regulations.</p> <p>(e) No more favorable terms — Until the Listing occurs, our Company shall not grant more favorable terms to other pre-IPO investors than those granted to China Resources Pharmaceutical Fund (except for the pricing term). If our Company does grant rights to other pre-IPO investors in more favorable terms than those granted to China Resources Pharmaceutical Fund, China Resources Pharmaceutical Fund shall automatically be entitled to those more favorable terms.</p> <p>(f) Pre-emptive right — Until the Listing occurs, China Resources Pharmaceutical Fund shall have the pre-emptive right to purchase its pro rata shares of any new securities that our Company proposes to issue and such pre-emptive right does not apply to the Listing.</p> <p>(g) Right to adjustment — If the valuation of our Company in any subsequent equity financing (excluding the Listing) is lower than its valuation under the Share Purchase Agreement, (i) China Resources Pharmaceutical Fund has the right to obtain additional Shares from One Victory at nil consideration for the shortfall; or (ii) One Victory shall pay to China Resources Pharmaceutical Fund a compensation amount for the shortfall if the value of all Shares held by China Resources Pharmaceutical Fund is less than the aggregate amount of the invested capital and the corresponding investment income as calculated by way of an annual 8% compound rate of return on investment. Such adjustment right shall lapse upon Listing.</p> <p>(h) Anti-dilution right — China Resources Pharmaceutical Fund is entitled to (i) right to obtain additional Shares from One Victory at nil consideration or (ii) compensation from One Victory for the shortfall from the sum of the invested capital and the corresponding investment income as calculated by way of an annual 8% compound rate of return on investment, in the event of dilution of Shares of our Company resulting from share split, bonus issue, recapitalization, etc.. Such anti-dilution right shall lapse upon Listing.</p>	<p>Our Directors do not expect any circumstances prior to the Listing which will trigger the Pre-IPO Investments provisions as set out in paragraph (e) and (g) above.</p>	

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The Sole Sponsor's View

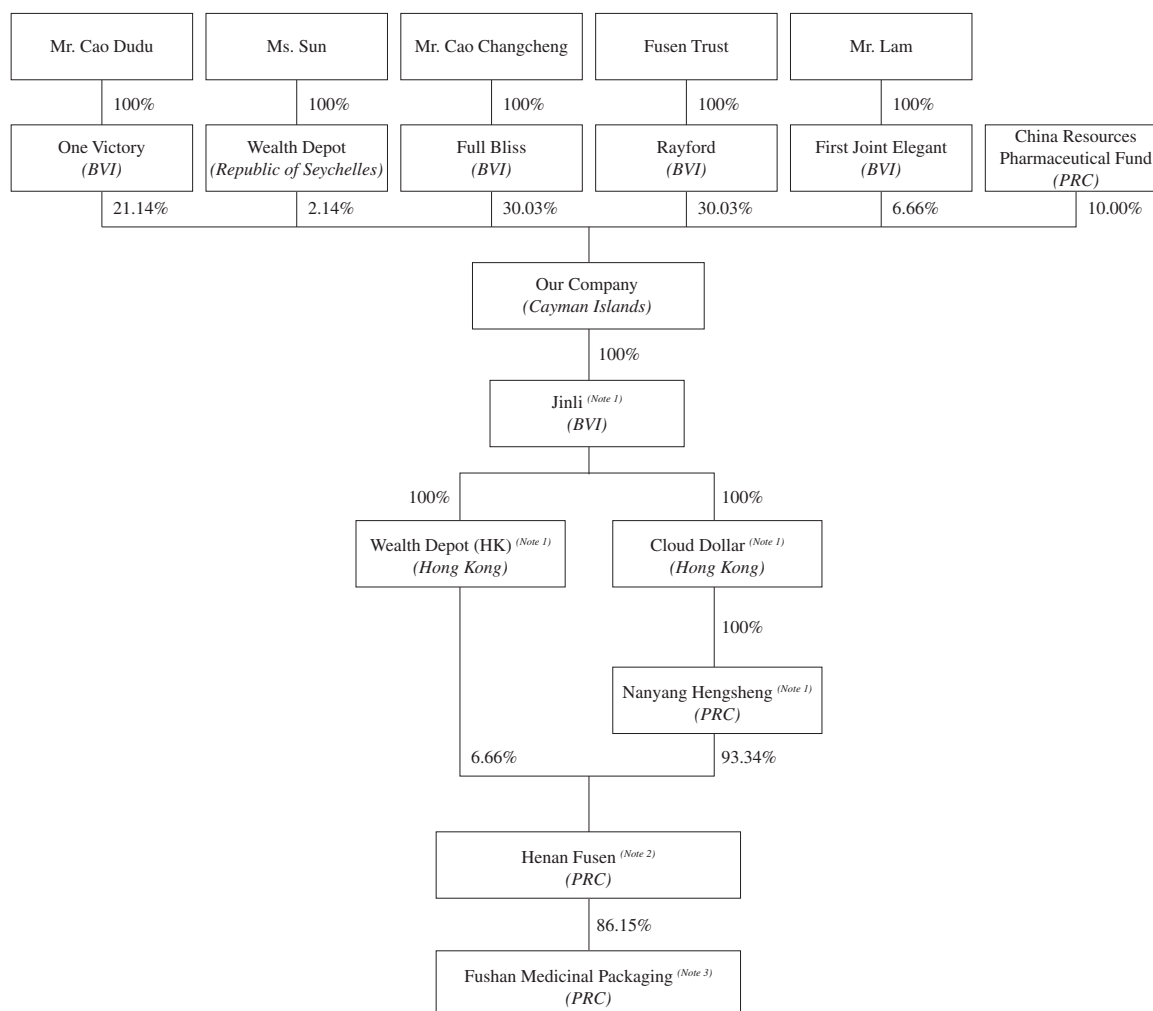
The Sole Sponsor has determined that the terms of the Pre-IPO Investments by each of Wealth Depot, One Victory, First Joint Elegant and China Resources Pharmaceutical Fund as described above are in compliance with (i) the Interim Guidance on the Pre-IPO investments issued by the Stock Exchange on October 13, 2010 as the consideration for the Pre-IPO Investments were all settled more than 28 clear days before the date of our first submission of the listing application form to the Listing Division of the Stock Exchange in relation to the Listing; (ii) the Guidance Letter HKEx-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and (iii) the Guidance Letter HKEx-GL44-12 issued by the Stock Exchange in October 2012 and as updated in March 2017 as each of Wealth Depot, One Victory and First Joint Elegant was never granted any special rights in respect of its investment in our Company, and the special rights granted to China Resources Pharmaceutical Fund shall terminate upon Listing pursuant to the terms of the Share Purchase Agreement.

Our PRC Legal Adviser further confirmed that all necessary approvals, permits and licenses required under the PRC laws and regulations in connection with the Reorganization have been obtained, and the Reorganization has complied with all applicable laws and regulations of the PRC.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

OUR GROUP STRUCTURE

The following diagram shows the corporate and shareholding structure of our Group immediately after completion of the Reorganization and the Pre-IPO Investments but before completion of the Capitalization Issue and the Global Offering:

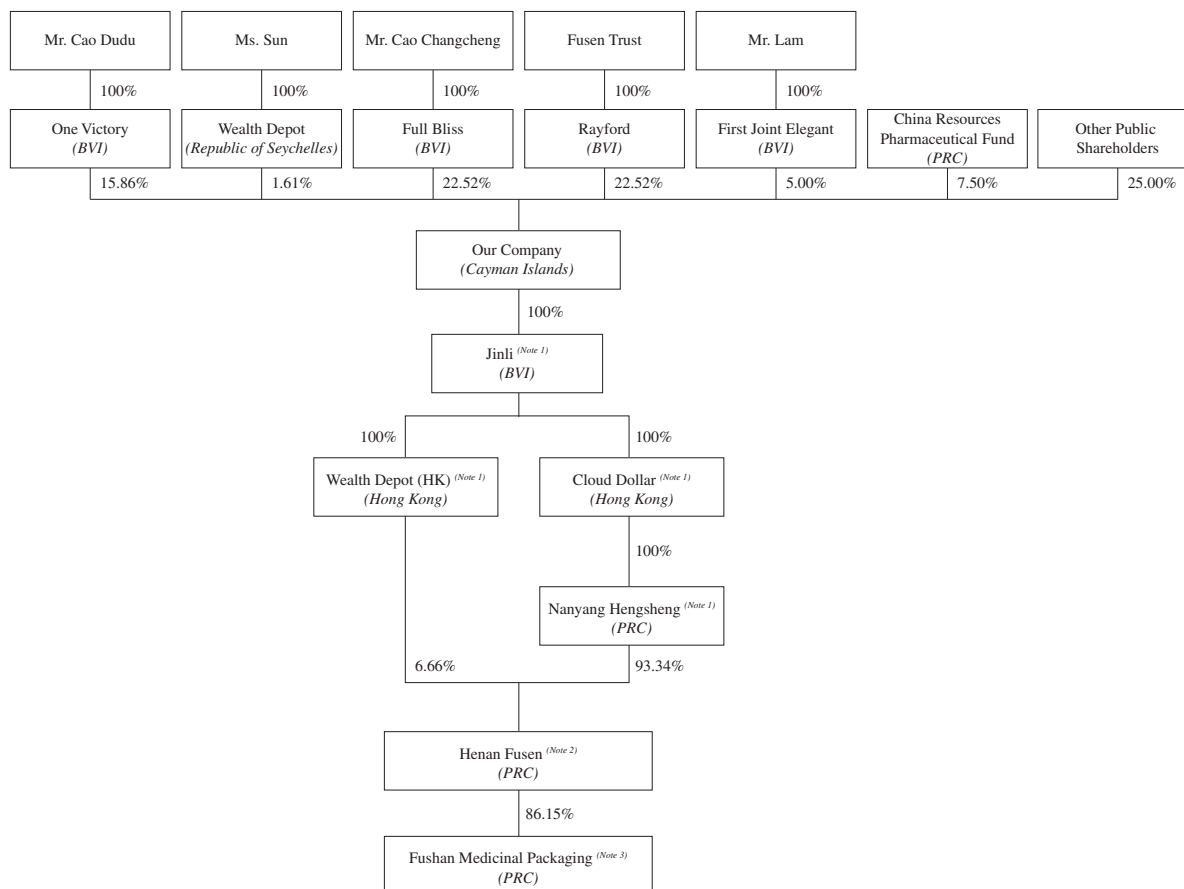


Notes:

1. Each of Jinli, Cloud Dollar, Wealth Depot (HK) and Nanyang Hengsheng is an investment holding company.
2. Henan Fusen carries on the business of production, sales and research and development of PCM cold medicines in the PRC.
3. Fushan Medicinal Packaging carries on the business of packaging of PCM cold medicines in the PRC. The remaining 13.85% was held by 17 individual shareholders who were our Group's present or former employees and their approximate shareholdings ranged from 0.38% to 3.85%.

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

The following chart sets forth our corporate and shareholding structure immediately after completion of the Capitalization Issue and the Global Offering (without taking account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme):



Notes:

1. Each of Jinli, Cloud Dollar, Wealth Depot (HK) and Nanyang Hengsheng is an investment holding company.
2. Henan Fusen carries on the business of production, sales and research and development of PCM cold medicines in the PRC.
3. Fushan Medicinal Packaging carries on the business of packaging of PCM cold medicines in the PRC. The remaining 13.85% was held by 17 individual shareholders who were our Group's present or former employees and their approximate shareholdings ranged from 0.38% to 3.85%.

ENTRUSTMENT ARRANGEMENT

Over the course of our business history, Henan Fusen has been owned by Mr. Cao Changcheng and other individual shareholders (including Mr. Hou Taisheng, Mr. Chi Yongsheng and Ms. Meng Qingfen, our executive Directors, Mr. Fu Jiancheng, our vice president, and other individual shareholders who are either current or former employees of our Group). Mr. Cao Changcheng, our founding shareholder, has remained the single largest shareholder of Henan Fusen since its establishment. As of August 2012, Mr. Cao further increased his shareholding to approximately 35.079% whereas the remaining 64.921% were owned by 44 individual shareholders (and later 47 individual shareholders (together, the “**Relevant Individual Shareholders**”). Throughout our operating history, Mr. Cao Changcheng has been the chairman and legal representative of Henan Fusen who is responsible for overall management, formulation of overall business development strategy and making final business decisions with respect to the affairs of Henan Fusen. Although the Relevant Individual Shareholders are the beneficial owners of an aggregate of approximately 64.921%, (i) given that the Relevant Individual Shareholders, who are mostly senior management, current and former employees of our Group, are accustomed to act in accordance with the instructions and directions of Mr. Cao Changcheng; and (ii) owing to the large number of shareholders involved, each of the Relevant Individual Shareholders agreed and confirmed that since he or she became interested in and possessed voting rights in Henan Fusen, he or she had irrevocably appointed Mr. Cao Changcheng as his or her sole and exclusive attorney who was entrusted to exercise the voting rights attaching to his or her equity interest in Henan Fusen at the sole discretion of Mr. Cao Changcheng (the “**Entrustment Arrangement**”). As such, the ultimate voting control has been centralized and vested to Mr. Cao Changcheng at general meetings of Henan Fusen. As Henan Fusen was a private company in the past, the Entrustment Arrangement was not formalized in writing and the Relevant Individual Shareholders were content with the Entrustment Arrangement based on their close and long-term business and personal relationship with, as well as the trust and confidence they have in, Mr. Cao Changcheng.

In preparation for the Listing, in February 2017 each of the Relevant Individual Shareholders executed a deed of confirmation (the “**First Deed of Confirmation**”), whereby each of them confirmed the existence of the Entrustment Arrangement in the past, as well as their intention to continue to act in the above manner upon the Listing. According to the First Deed of Confirmation, since they became interested in and possessed voting rights in Henan Fusen, during the Track Record Period and immediately prior to the Reorganization:

- (i) the Relevant Individual Shareholders had irrevocably appointed Mr. Cao Changcheng as their sole and exclusive attorney who was entrusted to exercise the voting rights attaching to their equity interest in Henan Fusen at the sole discretion of Mr. Cao Changcheng;
- (ii) Mr. Cao Changcheng had controlled the exercise of such voting rights on matters of any shareholders’ resolutions and had the power to direct all material management matters, voting decisions and/or business decisions relating to Henan Fusen required to be approved by shareholders under the articles of association of Henan Fusen (including but not limited to matters relating to all operating, financial, management and strategic decisions, adoption of operational and financial policy, investment policy, annual budget, change of composition of the board of directors, declaration of dividends, execution of material contracts, appointment of senior management and key employees relating to Henan Fusen); and

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (iii) the Relevant Individual Shareholders had taken such action and executed such resolutions and documents in accordance with the directions and instructions given by Mr. Cao Changcheng.

Pursuant to the First Deed of Confirmation, during the period when Fusen Shiye was the registered shareholder of Henan Fusen:

- (i) the Relevant Individual Shareholders had irrevocably appointed Mr. Cao Changcheng as their sole and exclusive attorney who was entrusted to exercise the voting rights attaching to their equity interest in Fusen Shiye at the sole discretion of Mr. Cao Changcheng;
- (ii) Mr. Cao Changcheng had controlled the exercise of such voting rights on matters of any shareholders' resolutions and had the power to direct all material management matters, voting decisions and/or business decisions relating to Fusen Shiye and Henan Fusen required to be approved by shareholders under the articles of association of Fusen Shiye and Henan Fusen (including but not limited to matters relating to all operating, financial, management and strategic decisions, adoption of operational and financial policy, investment policy, annual budget, change of composition of the board of directors, declaration of dividends, execution of material contracts, appointment of senior management and key employees relating to Fusen Shiye and Henan Fusen); and
- (iii) the Relevant Individual Shareholders had taken such action and executed such resolutions and documents in accordance with the directions and instructions given by Mr. Cao Changcheng.

As part of the Reorganization, the Fusen Trust was established whereby the Relevant Individual Shareholders hold their interests in our Company through the Fusen Trust, details of which are set out in the paragraph headed "Reorganization — (c) Establishment of the Fusen Trust" of this section above. The principle embodied under the Entrustment Arrangement described above is reflected under the terms of the Fusen Trust as follows:

- (i) Mr. Cao Changcheng is the protector of the Fusen Trust who has the power to remove the trustee and appoint new trustee for the Fusen Trust; and
- (ii) Mr. Cao Changcheng is the investment manager of the Fusen Trust which is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford and direct the trustee of the Fusen Trust to vote accordingly.

In preparation for the Listing, in August 2017, Mr. Cao Changcheng, Mr. Cao Dudu and One Victory, executed a deed of confirmation (the "**Second Deed of Confirmation**"). According to the Second Deed of Confirmation, since One Victory became interested in and possessed voting rights in our Company:

- (i) Mr. Cao Dudu and One Victory had irrevocably appointed Mr. Cao Changcheng as their sole and exclusive attorney who was entrusted to exercise the voting rights attaching to his/its interest in our Company at the sole discretion of Mr. Cao Changcheng;

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

- (ii) Mr. Cao Changcheng had controlled the exercise of such voting rights on matters of any shareholders' resolutions and had the power to direct all material management matters, voting decisions and/or business decisions relating to our Company required to be approved by shareholders under the articles of association of our Company (including but not limited to matters relating to all operating, financial, management and strategic decisions, adoption of operational and financial policy, investment policy, annual budget, change of composition of the board of directors, declaration of dividends, execution of material contracts, appointment of senior management and key employees relating to our Company); and
- (iii) Mr. Cao Dudu and One Victory had taken such action and executed such resolutions and documents in accordance with the directions and instructions given by Mr. Cao Changcheng.

Hence, in view of the above, Mr. Cao Changcheng, through Full Bliss (a company wholly-owned by himself), Rayford (a company wholly-owned by the Fusen Trust whereby through the arrangement with the Fusen Trust as described above, Mr. Cao Changcheng is entitled to exercise all voting rights attaching to the Shares owned by Rayford) and One Victory (a company wholly-owned by Mr. Cao Dudu whereby through the entrustment arrangement under the Second Deed of Confirmation, Mr. Cao Changcheng is entitled to exercise all voting rights attaching to the Shares owned by One Victory), will be entitled to exercise and control the exercise of the voting rights attaching to 60.90% of the Shares in issue upon completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and without taking into account the Shares which may be issued upon the exercise of the options which may be granted under the Share Option Scheme). Mr. Cao Changcheng and Full Bliss are therefore regarded as our Controlling Shareholders for the purpose of the Listing Rules.

SAFE REGISTRATION

Pursuant to SAFE Circular No. 37 issued by the SAFE, before a domestic resident contributes its legally-owned onshore or offshore assets and equity into an overseas special purpose vehicle, the domestic resident shall conduct foreign exchange registration for offshore investment with the local branch of the SAFE. Pursuant to SAFE Circular No. 13, the aforesaid registration shall be directly reviewed and handled by qualified banks instead of the local branch of the SAFE.

As confirmed by our PRC Legal Adviser, Mr. Cao Changcheng, our beneficial owner who is a PRC citizen or resident under SAFE Circular No. 37, has completed the process of initial registration pursuant to SAFE Circular No. 37 and SAFE Circular No. 13 on January 19, 2017.

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Under the M&A Rules which was issued by the MOFCOM and the other five governmental authorities on August 8, 2006 and implemented on September 8, 2006 and was amended by the MOFCOM on June 22, 2009, a foreign investor is required to obtain necessary approvals when (1) a foreign investor acquires equity in a domestic non-foreign invested enterprise (the “**domestic company**”) thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic company via an increase of registered capital thereby converting it into a foreign-invested

HISTORY, REORGANIZATION AND CORPORATE STRUCTURE

enterprise; or (2) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise.

Our PRC Legal Adviser is of the view that capital injection in Henan Fusen by Wealth Depot (HK), details of which are set out in the paragraph headed “Reorganization — (k) Acquisition of approximately 6.66% equity interest in Henan Fusen by Wealth Depot (HK)” in this section, is subject to the M&A Rules. On February 20, 2017, Henan Provincial Commerce Department (河南省商務廳) approved the aforesaid capital injection and on February 20, 2017, the People’s Government of Henan Province (河南省人民政府) granted the relevant approval certificate to Henan Fusen. On March 1, 2017, Nanyang Administration Bureau for Industry and Commerce (南陽市工商行政管理局) granted a new business license to Henan Fusen for conversion of Henan Fusen into a sino-foreign joint venture enterprise. As advised by our PRC Legal Adviser, the capital injection in Henan Fusen by Wealth Depot (HK) has obtained necessary approvals from relevant authorities under the M&A Rules.

As advised by our PRC Legal Advisors, the Listing and the completion of the Global Offering do not require the approval from the CSRC or the MOFCOM under current PRC laws.

OVERVIEW

We are the leading Shuanghuanglian-based cold medicine brand in terms of revenue in 2017, and Shuanghuanglian-based cold medicine is a major segment in the PCM cold medicine market with a 8.2% share in 2017, both according to the Frost & Sullivan Report. In 2017, in terms of revenue, we were the largest Shuanghuanglian-based cold medicine manufacturer and the eighth largest PCM cold medicine manufacturer with market shares of 33.3% and 2.9%, respectively, both according to the same source. Shuanghuanglian Oral Solutions, one of our major products, is also the largest medicine category in the PCM cold medicine market, accounted for 4.6% of the market in terms of revenue in 2017 according to the Frost & Sullivan Report. In addition to offering our core products Shuanghuanglian-based cold medicines, we are engaged in the research, development, production and sales of a wide variety of PCM and western medicine products for the treatments of cold and fever, cardiovascular diseases and anemia, many of which also enjoy a leading market share in their respective markets according to the Frost & Sullivan Report. For example, in 2017, our Flunarizine Hydrochloride Capsules (鹽酸氟桂利嗪膠囊) had the third largest market share in China, our Chaihu Injection (柴胡注射液) had the fourth largest market share in China and we dominated the Compound Ferrous Sulfate Granules (複方硫酸亞鐵顆粒) in China, all according to the same source.

Our headquarters are strategically located in Xichuan County, Henan Province, which, according to the Frost & Sullivan Report, is China's third largest production source of *Lonicera japonica*, a major raw material for Shuanghuanglian-based medicines, in terms of production output in 2017. According to the same report in the same year, Xichuan County's *Lonicera japonica* production amounted to approximately 16.3% of the national *Lonicera japonica* production. We believe our strategic location in Xichuan County enables us to secure stable source of quality raw materials, ensure product quality while controlling our procurement costs.

Our modern pharmaceutical production facilities are also located in Xichuan County. As of December 31, 2017, we had 18 GMP-certified production lines that are capable of producing 71 types of PCM and western medicine products in five dosage forms as prescribed by the GMP, namely small volume injection (including pre-treatment and extraction of traditional Chinese medicine), oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine). We believe such strong production capability enables us to achieve economies of scale while satisfying market demand. Meanwhile, the in-house production of key packaging materials also enables us to integrate procurement, production and packaging in our strategically located production facilities to achieve synergies, including better control over production costs and product quality.

We have established an extensive nationwide sales and distribution network that covers 30 of the 31 provinces, autonomous regions and centrally administered municipalities in China. As of December 31, 2017, we had 257 sales representatives stationed at our headquarters and in 17 cities that administered a sales and distribution network that consists of 1,647 distributors and 169 direct sales customers, primarily drugstore chains. We typically seek to establish collaborative long-term relationships with distributors and drugstore chains that have strong local knowledge and reputation. As of December 31, 2017, we had more than 500 distributors with no less than seven years of relationship with us, and the revenue generated from them represents approximately half of our revenue throughout the Track Record Period. Our extensive sales and distribution network also achieved deep penetration into the local end-markets in Henan Province and our Central China market (which includes Hubei,

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Hunan, Jiangxi, Hebei and Shanxi Provinces and Beijing and Tianjin Municipalities) where we strategically target in view of the large population, as evidenced by the revenue contribution of 57.4%, 55.5% and 57.1% from these markets in 2015, 2016 and 2017, respectively.

Our leading brand, ability to source quality raw materials, strong production capability and wide distribution network all contributed to our past financial success. Our consolidated revenue increased by 19.9% from RMB368.6 million in 2015 to RMB442.0 million in 2016, and further increased by 2.4% to RMB452.6 million in 2017. Our gross profit increased by 28.2% from RMB173.3 million in 2015 to RMB222.2 million in 2016 and further increased by 13.4% to RMB251.9 million in 2017. Our gross margin also improved from 47.0% in 2015 to 50.3% in 2016 and further to 55.7% in 2017.

OUR COMPETITIVE STRENGTHS

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

Leading Shuanghuanglian-based cold medicine brand in China

We are the leading Shuanghuanglian-based cold medicine brand in terms of revenue in 2017, and Shuanghuanglian-based cold medicine is a major segment in the PCM cold medicine market with a 8.2% share in 2017, both according to the Frost & Sullivan Report. In 2017, in terms of revenue, we were the largest Shuanghuanglian-based cold medicine manufacturer and the eighth largest PCM cold medicine manufacturer with market shares of 33.3% and 2.9%, respectively, both according to the same source. Shuanghuanglian Oral Solutions, one of our major products, is also the largest medicine category in the PCM cold medicine market, accounted for 4.6% of the market in terms of revenue in 2017 according to the Frost & Sullivan Report.

Cold medicines have strong market potential in China. According to the Frost & Sullivan Report, the growing health awareness and aging population in China are expected to drive strong growth in China's cold medicine market. Meanwhile, beginning in 2012, with the promulgation of the Administrative Measures for the Clinical Use of Antibacterial Drugs and the modernization of the PCM industry, the use of PCM to treat cold and URTI has increased significantly in recent years. The market for PCM cold medicines in China grew at a CAGR of 10.0% from 2013 to 2017 to reach RMB23.7 billion in terms of wholesale values according to the Frost & Sullivan Report. In addition, PCM cold medicines are expected to gain market share as China strengthened the management of compound preparations containing ephedrine alkaloids, which represent a majority of chemical cold medicines in the market. Among PCM cold medicines, Shuanghuanglian-based medicines have traditionally been widely used to treat cold, fever and coughs, and therefore enjoy broad recognition among Chinese patients and have penetrated deeply in hospitals and drugstores. According to the Frost & Sullivan Report, in terms of wholesale sales value in 2017, Shuanghuanglian Oral Solutions is the largest medicine category in terms of revenue in China's total PCM cold medicine market, representing a market share of 4.6%, and its market share is expected to remain stable at the highly fragmented PCM cold medicine market. Shuanghuanglian-based cold medicine accounted for 8.2% of the PCM cold medicine market in China in 2017, according to the same report.

We believe that our long-term leadership in the Shuanghuanglian-based cold medicines and strong brand recognition best positions us to capitalize on the strong expected growth opportunities ahead in China's PCM cold medicine market as well as the overall cold medicine market.

Competitive and diversified product offering supported by strong production capability

We endeavor to offer a wide and diversified range of PCM and western medicine products. In addition to Shuanghuanglian-based cold medicines, our core products, we actively develop new PCMs and western medicine products and selectively acquire the production permit of PCMs and western medicines with established market presence to broaden our product offering. As a result, our current product offering includes a wide variety of PCM and western medicine products for the treatments of cold and fever, cardiovascular diseases and anemia, many of which also enjoy a leading market share in their respective markets according to the Frost & Sullivan Report. For example, in 2017, our Flunarizine Hydrochloride Capsules (鹽酸氟桂利嗪膠囊) had the third largest market share in China, our Chaihu Injection (柴胡注射液) had the fourth largest market share in China and we dominated the Compound Ferrous Sulfate Granules (複方硫酸亞鐵顆粒) in China, all according to the same source. We believe that our leading position in the Shuanghuanglian-based cold medicine market strengthens our brand recognition in the medicine market, which also helps us to increase the sales of other products and further diversifies our current product portfolio.

As of December 31, 2017, we had 18 GMP-certified production lines that are capable of producing 71 types of PCM and western medicine products in five dosage forms as prescribed by the GMP, namely small volume injection (including pre-treatment and extraction of traditional Chinese medicine), oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine). As of the Latest Practicable Date, we held production permits for 71 types of PCM and western medicine products, including 27 types of PCM and western medicine products that were in production. We plan to start producing and offering the remaining 44 types of PCM and western medicine products for which we have production permits and are capable of manufacturing in the future to further broaden our product offering. As of the Latest Practicable Date, we were also the only approved manufacturer of Yixinkang Tablets (益心康片), Ganweikang Tablets (肝維康片), and Yuanhu Zhitong Oral Solutions (元胡止痛口服液) in China. In addition, we closely monitor the condition of markets for our current products which, together with our wide range of products and strong production capability, enable us to swiftly respond to the prevailing market condition and optimize our profit by adjust our product offering.

Our wide range of products is also expected to be benefitted from a number of new regulations and government policies concerning the pharmaceuticals industry in recent years. Among the 27 types of PCM and western medicine products we offered as of the Latest Practicable Date, 18 were listed in the most recent National Insurance Medicines Lists published in 2017 and six were listed in the most recent National Essential Medicine List published in 2012. During the Track Record Period, revenues generated from these medicines accounted for the substantial majority of our total revenues. We believe that as the PRC Government further promote the public healthcare system and the use of essential medicines and promulgate additional regulations and policies, the demand for medicinal products will further increase and our wide range of product offering positions us well in capturing such market opportunity.

Extensive sales and distribution network with nationwide coverage

Our products are sold through an extensive sales and distribution network that covers 30 of the 31 provinces, autonomous regions and centrally administered municipalities in China. We believe that our distribution network is not easily replicable because it is the culmination of a process of over a decade of searching for, identifying, negotiating with, selecting and managing qualified distributors and sales representatives in different regions across the country. In addition to our distributor network, we also sell our products directly to 169 direct sales customers as of December 31, 2017. Our extensive sales and distribution network also achieved deep penetration into the local end-markets in Henan Province and our Central China market (which includes Hubei, Hunan, Jiangxi, Hebei and Shanxi Provinces and Beijing and Tianjin Municipalities) where we strategically target in view of the large population, as evidenced by the revenue contribution of 57.4%, 55.5% and 57.1% from these markets in 2015, 2016 and 2017, respectively.

We seek to establish collaborative long-term relationships with distributors and drugstore chains that have strong local knowledge and reputation. As of December 31, 2017, we had more than 500 distributors with no less than seven years of relationship with us, and the revenue generated from them represents approximately half of our revenue throughout the Track Record Period. In particular, we entered into strategic framework agreements with two of our major distributors (namely, China Resources Pharmaceutical Commercial Group Co., Ltd. (華潤醫藥商業集團有限公司) and CR Care Company Limited (華潤堂有限公司) on the one hand, and Jointown Pharmaceutical Group Co., Ltd. (九州通醫藥集團股份有限公司) on the other hand) in 2018 to strengthen our relationship and cooperation. We implement rigid selection criteria when engaging distributors. In particular, we require all the distributors and drugstore chains to which we sell our products to be GSP-certified. We believe that our network of strong local distributors and drugstore chains greatly facilitate the distribution of our products to the end-users, particularly those located in county level districts.

As of December 31, 2017, we had 257 sales representatives stationed at our headquarters and 17 cities throughout China, including 117 sales representatives with more than 10 years of working experience with us and 69 sales representatives with five to 10 years of working experience with us. We constantly carry out training programs for our sales representatives to improve their professional competence and nurture their loyalty, which we believe are essential in growing our business in the long run. Our stable and experienced sales team works closely with our distributors and drugstore chains to provide them with market trends, information and features of our new products as well as pricing guidance. Our sales representatives also regularly visit our distributors and drugstore chains to which we sell our products to obtain feedbacks, assist them in resolving sales issues and ensure compliance with our distribution agreements or our annual sales agreements with drugstore chains, as applicable. We believe our close relationship with our distributors and drugstore chains enables us to collect first hand market intelligence, implement a highly adaptive sales strategy for our current products and devise sales strategy for our new products.

Stringent quality control system to ensure product safety and quality

We strictly follow the GMP standards in the production process of our medicines. We have devised and implemented a comprehensive quality control system that covers every aspect of our production activities to ensure the safety and quality of our products. Our comprehensive quality

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control system comprises the quality target set and monitored by our senior management, supplier selection guidelines, raw material procurement guidelines, production line control, product sampling, collection and management of product quality data, product delivery and after-sales tracing. Such comprehensive quality control system enables us to establish an end-to-end close-loop production system to ensure strict adherence to the highest safety and quality standards.

Our production facilities are strategically located in Xichuan County, China's third largest production source of *Lonicera japonica* according to the Frost & Sullivan Report. Our close proximity to the production source of *Lonicera japonica* best positions us in controlling the quality of a major raw material of Shuanghuanglian-based cold medicines and exerting strict control from the very beginning of the production process. This, combined with our comprehensive control throughout the rest of the production process, including in-house production of key packaging materials, enables us to establish a highly effective quality control system. During the Track Record Period and up to the Latest Practicable Date, our production plants had never experienced mandatory suspension, termination or cancelation of their respective GMP certification.

Our quality control system is led by Ms. Meng Qingfen, our Executive Director, who has pharmacist qualification. For our core products, we have accumulated substantial production experiences, which enable us to develop proprietary production process monitoring software, including our computerized monitoring and control system for PCM extraction and monitoring system for injection content uniformity, all of which enhance our production efficiency and ensure product safety and quality.

Our quality control process is led by the Quality Control department and Quality and Technology Management department and involves all our major departments. As of December 31, 2017, we had 39 staff members dedicated to quality control. We believe that our effective end-to-end quality control system will further strengthen our reputation and our competitive position.

Experienced, dedicated and stable management team

Our experienced management team comprises industry leaders and experts and has spearheaded our development into a leading Shuanghuanglian-based cold medicine brand in China. The substantial majority of our senior management team have over 14 years of experience in pharmaceutical industry. In particular, our Chairman Mr. Cao Changcheng was recognized as Nanyang City "Professional and Technical Talent" in 2008. In addition, our senior management team has accumulated more than a decade of experience in the production and sales of our core products. We believe that our senior management with substantial experience in the pharmaceutical industry enables us to swiftly identify market trend, improve operational efficiency, broaden and renew our product offering and grow our market share.

Our senior management team is also stable and highly dedicated. Four out of our five Executive Directors have been working with us as a team since our establishment in 2003. We believe that a dedicated and stable management team is essential in nurturing corporate loyalty and identity.

We have recently introduced China Resources Pharmaceutical Fund as our strategic investor. We believe our cooperation will bring to our Board industry insights and valuable advice, thereby enhancing our capability in formulating our growth and development strategies.

GROWTH STRATEGIES

Increase the market share of our products

We aim to increase the market share of our core products and the sales volume of the other products we currently offer. To achieve our goal, we plan to take advantage of the fact that a large number of our products have been selected through the collective tender process to promote our products and boost our sales. In addition, we plan to implement bespoke strategies for our core products and other products:

- *Shuanghuanglian-based cold medicines.* We plan to consolidate our current market leadership. In particular, for our Shuanghuanglian Oral Solutions, we plan to tailor our sales and promotional strategies for different channels, further our market penetration and expand our sales team to further explore the market for OTC medicines by focusing on drugstore chains and standalone drugstores. Our in-house OTC medicine sales team established in 2017 will further drive the sales and promotion efforts of our OTC medicines. On the other hand, for our Shuanghuanglian Injections, we plan to strengthen our sales and promotion efforts in Grade II and Grade III hospitals to take full advantage of the online medicine procurement platform for hospitals, as well as expand our collaboration with our distributors to cover more geographical markets.
- *Other current products with high growth potential.* We aim to increase the market share of our high growth products such as Qingre Jiedu Oral Solutions (清熱解毒口服液) and Xiao'er Kechuanling Oral Solutions (小兒咳喘靈口服液) that we rolled out in January 2017 and July 2017, respectively. To achieve our goal, we plan to fully leverage our current sales team to increase our sales through distributors. Furthermore, we plan to increase the market share for our OTC medicines through our in-house OTC medicine sales team established in 2017. We also plan to establish our in-house clinical sales team to reach more medical institutions via promotional seminars targeted at medical practitioners.

Expand our sales and distribution network and deepen its penetration

We plan to expand our sales and distribution network and achieve deeper penetration to drive the growth of our sales. In particular, we plan to implement the following strategies:

- *Strengthen our sales team.* As of December 31, 2017, we had sales representatives stationed in our headquarters and 17 cities to supervise our sales and distribution network covering 30 of the 31 provinces, autonomous regions and centrally administered municipalities in China. We plan to expand our sales team to closely track local market intelligence, allocate resource to explore these markets, ensure timely communication and cater to the specific needs of different local markets.
- *Pursue sales strategies tailored to different regions.* We plan to further expand our current network of distributors and expand its coverage to additional local markets. For regions we have established an initial presence, we plan to focus on increasing the sales of our OTC medicines to drugstore chains and our distributors. In markets we have established a longer and stronger presence, including Central China, we plan to increase our penetration by further expanding our county level distribution network.

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- *Optimize our network of distributors.* We plan to strengthen and continue our long term collaborative relationships with our distributors. We also plan to actively monitor the performance of our distributors and terminate continuously underperforming distributors. Furthermore, we plan to engage reputable distributors with strong local knowledge to increase our sales to local level hospitals and medical institutions.

Strengthen our research and development efforts and broaden our product offering

We plan to further our research and development efforts in improving our production techniques and developing new products for the treatment of URTI, cardiovascular and pediatric diseases. We also plan to expand our research and development team by recruiting industry experts and strengthen our internal training. In addition, we plan to upgrade our research and development facilities by procuring state-of-the-arts equipments.

In addition to our in-house research development effort, we plan to further our collaboration with external research institutions on product development projects, including acquiring the intellectual properties pertaining to new products from third parties directly to supplement our research and development efforts and broaden our product offering to capture potential market demand. Furthermore, we may directly purchase manufacturing technologies or rights in granted approvals of selected drugs from third-party pharmaceutical companies, which can significantly shorten our research and development cycle, and thus expand and diversify our current product portfolio and pipeline in timely response to the market. Currently, in collaboration with our external partners, we have seven projects under research and development. To achieve synergies with our current product portfolio, we plan to acquire pharmaceutical products for the major therapeutic areas of our current products, namely high incidence diseases and chronic diseases. Our current product portfolio covers pharmaceutical products for diseases with high incidence such as cold (primarily our Shuanghuanglian-based cold medicines, as well as Qingre Jiedu Oral Solutions and Xiao'er Kechuanling Oral Solutions) and gynecological diseases (including Yuanhu Zhitong Oral Solutions and Compound Ferrous Sulfate Granules) and chronic diseases such as cardiovascular diseases (including Tongmai Oral Solutions, Mai'an Granules and Yixinkang Tablets), cerebrovascular disease (Flunarizine Hydrochloride Capsules), diabetes (Metformin Hydrochloride Sustained Release Tablets) and chronic hepatitis B (Ganweikang Tablets). We believe that targeting these areas will enable us to achieve synergies by leveraging our brand reputation in such areas, similar target customers and our rich experiences in marketing and selling these products. Furthermore, as many of these diseases are associated with various complications, a broad product portfolio in these areas enable us to cross sell our pharmaceutical products to a same group of customers. Moreover, these areas have strong market potential according to Frost & Sullivan.

We plan to commence production and sales of products that we develop in collaboration with our research partners after we acquire relevant production permits in response to market conditions. We plan to actively promote these products to hospitals and other medical institutions and engage reputable distributors once production and sales begin.

Optimize and expand our production capacity

As of the Latest Practicable Date, we had obtained all the production permits for 27 types of medicines we offer as required by PRC laws, among which six types of medicines were listed in the most recent version of National Essential Medicine List published in 2012, 18 types of medicines were listed in the most recent version of National Insurance Medicines Lists published in 2017. We plan to closely monitor the market condition to adjust the types and dosage of medicines we produce and sell, so as to satisfy prevailing market demand and optimize our profitability. Meanwhile, on top of our five types of GMP-certified production lines, we plan to build more production lines for oral solutions. In addition, we plan to upgrade our production facilities by enhancing their automation. We believe our expansion and upgrade plan will optimize our production capability and facilitate us in diversifying our product offering.

We currently plan to establish an additional production facility for oral solutions with an annual designed production capacity of 2.3 million liter of oral solution, an intelligent warehouse and facilities for initial and advanced processing of medicinal herbs. All of these facilities will locate in Xichuan County, Henan Province, and are expected to be in operation in 2020. See “— Production — Expansion Plan” for further details.

Engage in selective acquisitions and strategic investments to broaden our product offering and extend our presence in the value chain

We intend to supplement our organic growth with selective acquisitions of and strategic investments to companies whose product offering can optimize our current product offering and who have strong distribution channels. When evaluating acquisition targets, we primarily take into account market potential of the business of the target and expected synergies with the business of the target. Our primary acquisition and investment targets are companies focusing on the manufacture of PCM decoction pieces and granules, so as to broaden our product offering and strengthen our competitive edge. We believe that our in-depth industry experience and expertise not only facilitate us in making acquisition and investment decisions, but also in integrating the targets to create synergies.

As of the Latest Practicable Date, we had not engaged in any negotiation or entered into any letter of intent or agreement for such acquisition nor identified any definite acquisition or investment target.

Strengthen our sales and marketing activities to achieve stronger brand recognition

We believe that a strong brand is essential for our future development. We plan to strengthen our marketing and promotion efforts to enhance our brand recognition. In particular, we intend to engage external marketing and branding consultants to devise a comprehensive corporate image, branding and marketing plan, as well as employ experienced sales and marketing managers to enhance our in-house sales and marketing capability. We plan to pursue a multi-channel marketing efforts, including the sponsorship of TV programs, columns in pharmaceuticals-related print media and academic seminars and the use of outdoor advertising, online advertising and WeChat public account to promote our brand and products. We believe that increasing expenditure on marketing will enhance our brand recognition and increase our sales.

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OUR PRODUCTS

Our expertise lies in high quality OTC and prescription PCM products in modern dosage forms. As of the Latest Practicable Date, we produce, market and sell 27 types of PCM and western medicine products under our Fusen brand. All of these 27 types of pharmaceutical products were acquired from external sources, including Xichuan Pharmaceuticals. Going forward, we will continue to focus the production and sales of our major products, especially Shuanghuanglian Oral Solutions and Shuanghuanglian Injections, while continue to update and expand our product portfolio to stay current with market demand and competitions.

Our product portfolio can be categorized into: (i) Shuanghuanglian-based cold medicines, including Shuanghuanglian Oral Solutions (雙黃連口服液) and Shuanghuanglian Injections (雙黃連注射液); and (ii) other PCM and western medicine products such as Compound Ferrous Sulfate Granules (複方硫酸亞鐵顆粒) and Flunarizine Hydrochloride Capsules (鹽酸氟桂利嗪膠囊). The table below sets forth a breakdown of our revenue by type of products for the periods indicated:

	Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Shuanghuanglian-based medicines:						
Shuanghuanglian Oral Solutions (10ml)	144,176	39.1	212,416	48.1	190,735	42.1
Shuanghuanglian Oral Solutions (20ml)	40,387	11.0	59,441	13.4	66,798	14.8
Subtotal	184,563	50.1	271,857	61.5	257,533	56.9
Shuanghuanglian Injections	109,007	29.5	88,745	20.1	92,837	20.5
Subtotal	293,570	79.6	360,602	81.6	350,370	77.4
Other products:						
Compound Ferrous Sulfate Granules	16,951	4.6	20,655	4.7	22,808	5.0
Flunarizine Hydrochloride Capsules	16,331	4.4	16,775	3.8	16,649	3.7
Others ⁽¹⁾	41,782	11.3	43,956	9.9	62,753	13.9
Subtotal	75,064	20.4	81,386	18.4	102,210	22.6
Total	368,634	100.0	441,988	100.0	452,580	100.0

(1) Including other PCM and western medicine products.

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The following table sets forth the details of all 27 types of pharmaceutical products we offered as of the Latest Practicable Date:

<u>Product name</u>	<u>Major therapeutic area</u>	<u>Product approval expiration</u>	<u>Prescription medicine or OTC medicine⁽¹⁾</u>	<u>National Insurance Medicines Lists⁽²⁾</u>	<u>National Essential Medicine List⁽³⁾</u>
Shuanghuanglian Oral Solutions 雙黃連口服液	Cold	July 7, 2020	OTC	Yes, Part B	Yes
Shuanghuanglian Injections 雙黃連注射液	Cold	July 6, 2020	Prescription	Yes, Part B	No
Compound Ferrous Sulfate Granules 複方硫酸亞鐵顆粒	Anemia	July 7, 2020	OTC	No	No
Qianbai Biyan Tablets 千柏鼻炎片	Rhinitis	July 6, 2020	Prescription	Yes, Part B	No
Tongmai Oral Solutions 通脈口服液	Cardiovascular system	March 27, 2023	Prescription	No	No
Yuanhu Zhitong Oral Solutions 元胡止痛口服液	Pain Relieving	May 20, 2020	OTC	Yes, Part B	No
Flunarizine Hydrochloride Capsules 鹽酸氟桂利嗪膠囊	Nervous system	July 6, 2020	Prescription	Yes, Part A	No
Sanhuang Tablets 三黃片	Fever	July 6, 2020	OTC	Yes, Part A	No
Metformin Hydrochloride Sustained Release Tablets 鹽酸二甲雙胍緩釋片	Diabetes control	March 27, 2023	Prescription	Yes, Part B	No
Ganweikang Tablets 肝維康片	Alimentary system	July 7, 2020	Prescription	No	No
Yixinkang Tablets 益心康片	Cardiovascular system	July 7, 2020	Prescription	No	No
Xiao'er Kechuanling Oral Solutions 小兒咳喘靈口服液	Cold	April 20, 2022	OTC	Yes, Part B	No
Qingre Jiedu Oral Solutions 清熱解毒口服液	URIT	October 26, 2021	OTC	Yes, Part B	No
Mai'an Granules 脈安顆粒	Cardiovascular system	July 6, 2020	Prescription	No	No
Yanning Capsules 炎寧膠囊	Anti-infective	January 4, 2021	Prescription	No	No

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<u>Product name</u>	<u>Major therapeutic area</u>	<u>Product approval expiration</u>	<u>Prescription medicine or OTC medicine⁽¹⁾</u>	<u>National Insurance Medicines Lists⁽²⁾</u>	<u>National Essential Medicine List⁽³⁾</u>
Clarithromycin Sustained Release Tablets 克拉黴素緩釋片	Anti-infective	April 11, 2021	Prescription	No	Yes
Ranitidine Hydrochloride Capsules 鹽酸雷尼替丁膠囊	Alimentary system	July 8, 2020	OTC	Yes, Part A	No
Roxithromycin Capsules 羅紅黴素膠囊	Anti-infective	July 6, 2020	Prescription	Yes, Part B	No
Chaihu Injections 柴胡注射液	Cold	July 17, 2021	Prescription	Yes, Part A	Yes
Pyrazole Raschig Injections 吡拉西坦注射劑	Nervous system	July 7, 2020	Prescription	Yes, Part B	No
Berberine Hydrochloride Tablets 鹽酸小檗碱片	Anti-infective	May 20, 2020	OTC	Yes, Part A	No
Yangchun Oral Solutions 陽春口服液	General	May 20, 2020	OTC	No	No
Fosfomycin Calcium and Trimethoprim Capsules 磷黴素鈣甲氧苄啶膠囊	Anti-infective	July 7, 2020	Prescription	No	No
Captopril Tablets 卡托普利片	Cardiovascular system	May 20, 2020	Prescription	Yes, Part A	Yes
Compound Sulfamethoxazole Tablets 複方磺胺甲噁唑片	Anti-infective	July 6, 2020	Prescription	Yes, Part A	Yes
Paracetamol Tablets 0.5g 對乙醯氨基酚片	Fever	June 23, 2020	OTC	Yes, Part A	Yes
Tabellae Rhei ET Natrii Bicarbonatis 大黃碳酸氫鈉片	Alimentary system	May 14, 2020	OTC	Yes, Part A	No

(1) State Non-Prescription Medicine Catalogs I to VI published from 1999 to 2003.

(2) Medicines List for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2017 Edition) published in 2017.

(3) National Essential Medicine List published in 2012.

According to the Frost & Sullivan Report, Shuanghuanglian Oral Solutions has the largest market share of the entire PCM cold medicine market in terms of revenue in 2017, accounted for approximately 4.6% of the total PCM cold medicine market. Shuanghuanglian-based cold medicine accounted for 8.2% of the PCM cold medicine market in China in 2017, according to the same report.

Shuanghuanglian Oral Solutions

We launched Shuanghuanglian Oral Solutions in 2004 and it has been one of our major products since then. We offer Shuanghuanglian Oral Solutions in 10ml oral solutions and 20ml oral solutions with a variety of six packaging types under our brand and one packaging type to our OEM customers. We ceased such OEM sales in December 2016. The APIs of Shuanghuanglian Oral Solutions include Ionicera, baikal skullcap root and forsythia. Starting in February 2016 till the end of 2017, we raised the wholesale price of various packaging types of our Shuanghuanglian Oral Solutions several times. As a result, the average selling price of our Shuanghuanglian Oral Solutions increased from RMB0.47 per 10ml and RMB0.82 per 20ml in 2015 to RMB0.52 per 10ml and RMB0.93 per 20ml in 2016 and further to RMB0.67 per 10ml and RMB1.07 per 20ml in 2017. See “Financial Information — Principal Components of Consolidated Statement of Profit or Loss and Other Comprehensive Income — Revenue — Revenue by Types of Products” for a discussion on the fluctuations of sales volume as a result of the raising of wholesale price. We are the second largest manufacturer of Shuanghuanglian Oral Solutions with a market share of 35.5% in terms of revenue in 2017 according to the Frost & Sullivan Report.

Shuanghuanglian Injections

We launched Shuanghuanglian Injections in 2004 and it has been one of our major products since then. We offer Shuanghuanglian Injections in 20ml injections with a variety of two packaging types. The APIs of Shuanghuanglian Injections includes Ionicera, baikal skullcap root and forsythia. In 2015, 2016 and 2017, the average selling price of our Shuanghuanglian Injections per 20ml was RMB1.19, RMB1.26 and RMB1.42, respectively. In June 2018, the PRC government started to restrict the use of Shuanghuanglian Injections on children below the age of four and pregnant women. However, as we have put in explicit restriction on the use of our Shuanghuanglian Injections on children below the age of six and pregnant women before the new restriction, we do not believe such new restriction would have any material adverse impact on our business. We dominate the Shuanghuanglian Injections market with a market share of 91.6%, in terms of revenue in 2017 according to the Frost & Sullivan Report.

Future Demand of our Shuanghuanglian-based Cold Medicines

Our Directors are of the view that the future demand of our Shuanghuanglian-based cold medicines will remain solid on the basis that factors such as aging population, improved awareness of personal health and purchasing power, modernization of the PCM industry and favorable national policies will continue to drive the growth in demand for Shuanghuanglian-based cold medicines. In particular, the market size of Shuanghuanglian-based medicine in China is expected to grow at a CAGR of 10.7% from RMB1,942.7 million in 2017 to RMB3,236.7 million in 2022 according to the Frost & Sullivan Report. According to the same source, the market size of Shuanghuanglian Oral Solutions in China is expected to grow at a CAGR of 12.4% to reach RMB1,947.5 million in 2022, while the market size of Shuanghuanglian Injections in China is expected to grow at a CAGR of 10.0% to reach RMB460.8 million in 2022. In addition, in response to the higher wholesale price set by us, the retail price of our products also increased in 2016 and 2017 correspondingly as compared with the retail price in 2015 according to Frost & Sullivan. The retail price range of Shuanghuanglian Oral Solutions increased from RMB0.47 to RMB0.96 per 10ml and RMB1.11 to RMB1.86 per 20ml in 2015 to RMB0.47 to RMB1.68 per 10ml and RMB1.11 to RMB2.98 per 20ml in 2016 and RMB0.61 to RMB1.98 per 10ml and RMB1.12 to RMB2.98 per 20ml in 2017, while the retail price range of Shuanghuanglina Injections increased from RMB0.86 to RMB2.34 per 20ml in 2015 to RMB0.86 to RMB2.62 per 20ml in 2016 and

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RMB1.26 to RMB3.00 per 20ml in 2017 according to Frost & Sullivan. We expect the retail price to further grow in the future, but at a slower pace as compared with the past three years, assuming there is no major outbreak of cold and other unexpected adverse market condition. Furthermore, while a number of our distributors opted to observe the market reaction to the price hike in 2017 and reduced their orders, we recorded strong increase in our sales volume in the three months ended March 31, 2018 as compared with the same period in 2017, which is an evidence of (i) our distributors recorded and expected strong sales of our products; and (ii) the decrease in our sales volume in 2017 was a short term fluctuation and in a growing Shuanghuanglian cold medicine market.

We believe that it is not uncommon for a PCM company to generate a substantial portion of its revenue from a limited types of products. For example, according to the Frost & Sullivan Report, a pharmaceutical company listed in China's A-share market generated 99.98% of its revenue from a single product in 2016, while another pharmaceutical company which has submitted prospectus generated all of its revenue from a single product in 2016.

Our Other Products

We currently offer 25 types of other PCM and western medicine products, with Compound Ferrous Sulfate Granules (複方硫酸亞鐵顆粒) and Flunarizine Hydrochloride Capsules (鹽酸氟桂利嗪膠囊) being the products that generated the most revenue among the 25 types of products during the Track Record Period. As we plan to devote substantial resource to promote the sales of these products and we plan to roll out new products, we expect the sales of our other products to further increase in absolute terms. The table below sets forth the products we plan to launch in the years indicated:

	Products	Major Therapeutic Areas
2018	Gentamicin Sulfate Injections 硫酸慶大黴素注射液 Ganmaoqing Tablets 感冒清片 Compound Platycodon Anti-cough Tablets 複方桔梗止咳片	Anti-infective Cold Anti-cough
2019	Lincomycin Hydrochloride Injections 鹽酸林可黴素注射液 Inosine Injections 肌苷注射液 Pentoxifyverine Citrate Tablets 枸橼酸噴托維林片	Anti-infective Cardiovascular system URIT
2020	Maiwei Dihuang Oral Solutions 麥味地黃口服液 Xiaoshuan Oral Solutions 消栓口服液 Shengmai Oral Solutions 生脈飲	Renal system Cardiovascular system Cardiovascular system

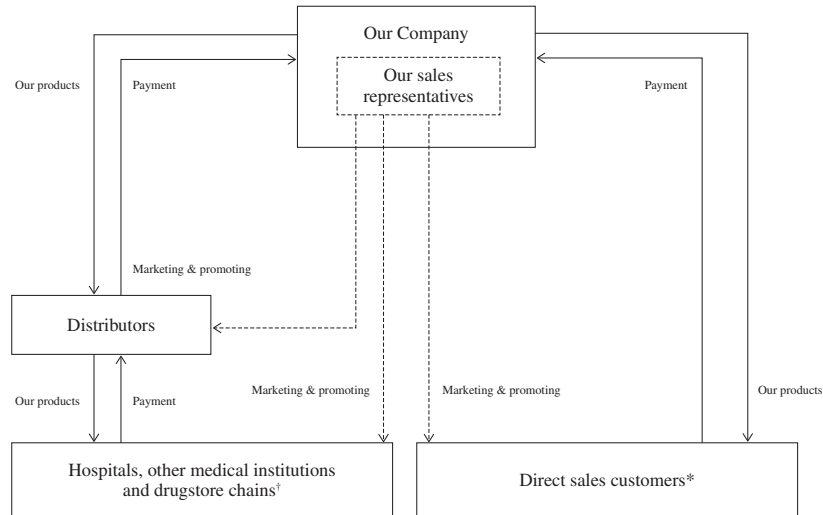
SALES AND DISTRIBUTION

We have a nationwide sales and distribution network that consisted of 1,647 distributors and 169 direct sales customers, primarily drugstore chains, supervised by our 257 sales representatives stationed at our headquarters and 17 cities as of December 31, 2017. We believe our extensive sales and distribution network utilizing both distributors and direct sales best allows us to maximize our market presence. Our extensive sales and distribution network also achieved deep penetration into the local end-

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markets in Henan Province and our Central China market (which includes Hubei, Hunan, Jiangxi, Hebei and Shanxi Provinces and Beijing and Tianjin Municipalities) where we strategically target in view of the large population, as evidenced by revenue contribution of 57.4%, 55.5% and 57.1% from these markets in 2015, 2016 and 2017, respectively. During the Track Record Period, all our products were sold in the PRC.

To manage our distribution network, our sales representatives work closely with our distributors and are responsible for setting sales targets and monitoring performance of our distributors and their inventory level. The table diagram below illustrates our sales and distribution mechanism:



* Primarily drugstore chains not covered by the network of our distributors.

† In addition to the marketing and promoting activities of our sales representatives, the distributors may market and promote our products to their customers.

We continuously strengthen the quality of our sales representatives by providing training on a regular basis to improve their product knowledge and marketing skills, which include effectively select and manage distributors, and handle queries of various customers. We believe we provide relative competitive incentives to our sales representatives, which are based on the performance evaluation of the sales representatives with reference to market practice. In particular, we consider the obsolete inventory and late repayment, if any, of the distributors that the sales representatives are in charge of as a negative factor in the evaluation of the performance of the sales representatives to preclude potential conflict of interest between the sales representatives and our distributors. To promote our products, we place targeted advertisements on mass media as well as specialized academic periodicals from time to time.

We believe that our distribution network is not easily replicable because it is the culmination of a process of over a decade of searching for, identifying, negotiating with, selecting and managing qualified distributors and sales representatives in different regions across the country. Our sales mechanism also requires a highly effective internal management system to control and support a distribution network of such a large scale. Over the years, we have also developed pricing strategies to ensure attractive profit margins for our distributors. In addition, the market leading positions of several of our products and our strong product pipeline help retain our distributors.

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The following table sets forth a breakdown of revenue by different distribution channel and their respective percentage for the periods indicated:

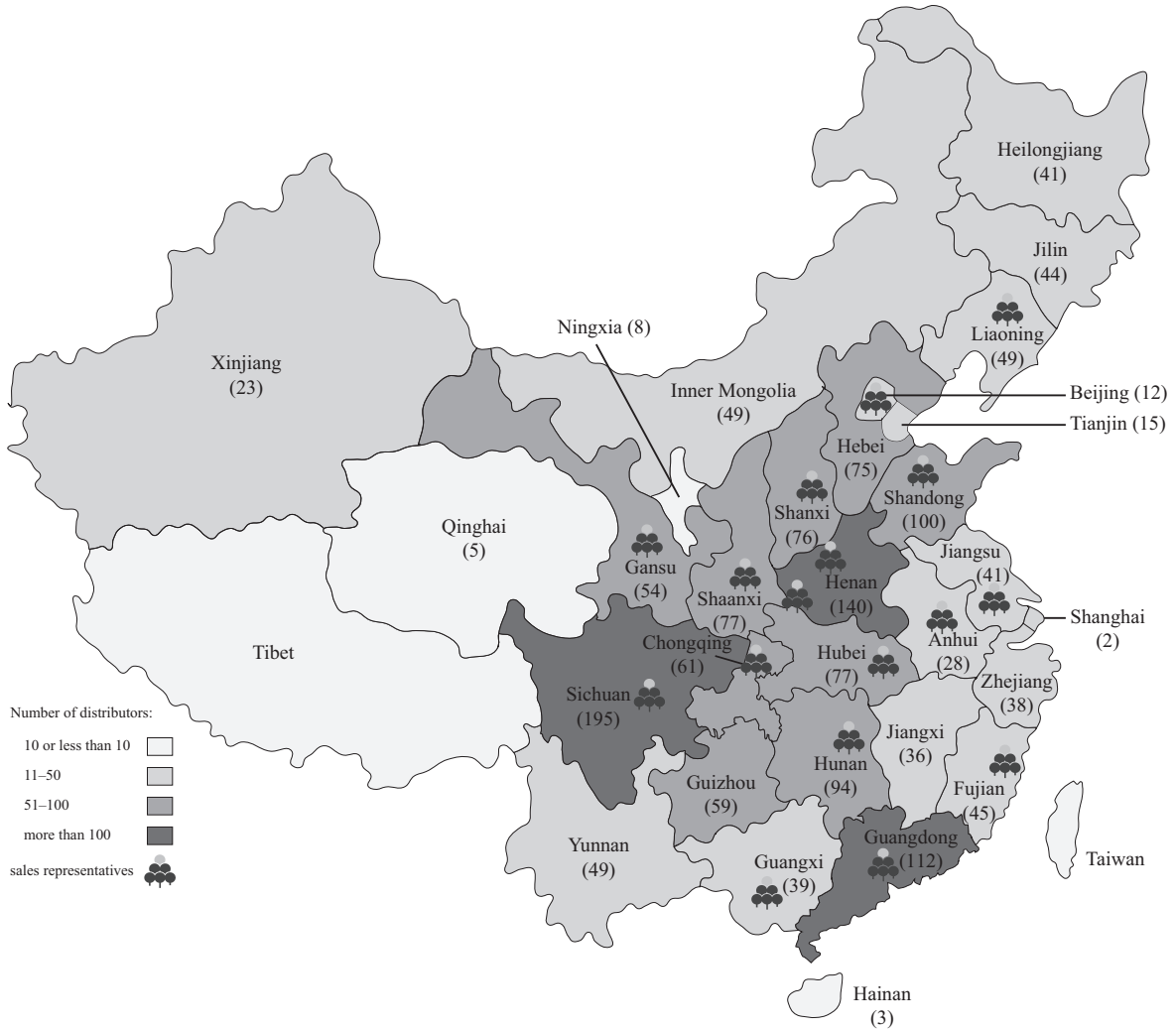
	For the year ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Distributors ⁽¹⁾	357,686	97.0	423,904	95.9	435,529	96.2
Direct sales customers	5,911	1.6	11,509	2.6	17,051	3.8
OEM sales ⁽²⁾	5,037	1.4	6,576	1.5	—	—
Total Revenue	368,634	100.0	441,988	100.0	452,580	100.0

(1) Represents our sales to our distributors as we do not sell directly to sub-distributors.

(2) Represents the sales of certain types of our products, including a specific dosage of our Shuanghuanglian Oral Solutions made under OEM arrangements which bear the brand of our OEM customers. We charged our OEM customers a fixed price. We ceased such OEM sales in December 2016.

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Our products are sold through an extensive sales and distribution network that covers 30 of the 31 provinces, autonomous regions and centrally administered municipalities in China. The map below illustrates the coverage of our distribution network (including the number of our distributors in each of the provinces, autonomous regions and centrally administered municipalities) as of December 31, 2017:



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The following table sets forth a breakdown of our revenue by geographical market for the periods indicated:

	For the year ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Henan Province	125,588	34.1	152,419	34.5	164,443	36.3
Central China (except for Henan Province) ⁽¹⁾	85,922	23.3	93,045	21.1	93,965	20.8
Southeast China ⁽²⁾	65,164	17.7	80,126	18.1	82,399	18.2
Southwest China ⁽³⁾	39,902	10.8	51,005	11.5	48,441	10.7
Northwest China ⁽⁴⁾	39,677	10.8	50,354	11.4	45,366	10.0
Northeast China ⁽⁵⁾	<u>12,381</u>	<u>3.3</u>	<u>15,039</u>	<u>3.4</u>	<u>17,966</u>	<u>4.0</u>
Total revenue	<u>368,634</u>	<u>100.0</u>	<u>441,988</u>	<u>100.0</u>	<u>452,580</u>	<u>100.0</u>

- (1) Our Central China market includes Hubei, Hunan, Jiangxi, Hebei and Shanxi provinces and Beijing and Tianjin.
- (2) Our Southeast China market includes Guangdong, Hainan, Shandong, Jiangsu, Anhui, Fujian, and Zhejiang provinces, Guangxi Zhuang Autonomous Region and Shanghai.
- (3) Our Southwest China market includes Yunnan, Guizhou and Sichuan provinces, Tibet Autonomous Region and Chongqing.
- (4) Our Northwest China market includes Qinghai, Gansu and Shaanxi provinces and Xinjiang Uyghur Autonomous Region, Ningxia Hui Autonomous Region and Inner Mongolia Autonomous Region.
- (5) Our Northeast China market includes Heilongjiang, Jilin and Liaoning provinces.

We make sales to our distributors as well as out direct-sales customers. In the years ended December 31, 2015, 2016 and 2017, sales to our five largest customers accounted for 9.7%, 10.0% and 13.9%, respectively, of our total revenue for the respective periods, while sales to our single largest customer accounted for 4.0%, 3.0% and 3.9%, respectively, of our total revenue for the respective periods. Our Directors confirm that, as of the Latest Practicable Date, all of our five largest customers were independent third parties and none of our Directors or their associates or our existing Shareholders who, to the knowledge of our Directors, owned more than 5% of our issued share capital had any interest in any of our five largest distributors. During the Track Record Period, none of our customers was also a supplier or vice versa.

Multi-dimensional Distributorship

The PRC pharmaceutical distribution chain is highly fragmented with a large number of distributors of different sizes according to the Frost & Sullivan Report. We engage our distributors to sell and distribute all types of products we produce. They then resell our products to hospitals, other medical institutions, wholesalers and retail drugstores of various sizes. We believe our existing distribution model is in line with customary industry practice and allows us to benefit from their established access to the local markets and expand the breadth and depth of our market presence. Our

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distributors have extensive geographic distribution networks with strong logistics support. Leveraging their local relationships, knowledge and networks, we believe the use of distributors enables us to achieve more efficient expansion and save the costs that would otherwise be incurred to maintain a tremendous sales force to cover a large number of hospitals, other medical institutions and drugstores directly and to establish a logistics network. Furthermore, large-scale distributors typically have stronger financial resources and are able to put up substantial deposit or pay the full purchase price before the delivery of our products, which may substantially enhance our liquidity position and reduce our risks. In addition, we rely on our distributors to distribute to certain individual hospitals as specifically required by certain hospitals.

We engage distributors of different geographical coverage and channel focuses, each selling one or more types of our products. We select our distributors based on various criteria, including their reputation, market coverage, industry experience, operational track record and ability to foster relationships with sub-distributors or hospitals, after-sales services, financial strength and existing or potential size of their distribution force. We make highly flexible coverage and pricing arrangements tailored to different products to ensure an optimal balance of rapid expansion, desirable profitability and low risk for us. In particular, we typically engage hospital-designated distributors for the distribution of our certain prescription and OTC products, including Shuanghuanglian Oral Solutions, Shuanghuanglian Injections, Flunarizine Hydrochloride Capsules and Chaihu Injections to hospitals and medical institutions. We believe this approach allows us to leverage their familiarity with the local hospitals and their expertise in dealing with the collective statutory tender process to provide us better services including, among other things, administrative assistance, documentation support, coordinating the tender process, and facilitating communications with relevant government authorities. Meanwhile, for certain of our OTC products, we engage regional distributors covering both hospital and drugstore channels.

For certain types of products and geographical markets that we plan to deepen the penetration, we enter into three-way distribution agreements with our primary and sub-distributors having strong presence in the local pharmaceutical markets with great growth potential. By engaging the sub-distributors that have established distribution network covering more remote or less developed regions, our distributors are able to extend their distribution coverage and achieve deep penetration into the local end-markets. Pursuant to the three-way agreements, the sub-distributors purchase our products only from our distributors. Such arrangement allow us to reduce the credit risk inherent in our sales as we only deal directly with our distributors, which are mainly reputable and established pharmaceutical distributors and wholesalers, and have maintained relatively long and satisfactory trading record with us.

In response to the “two-invoice system” (兩票制) which only allows a single level of distributors for the sale of pharmaceutical products from the manufacturers to the public medical institutions, we have eliminated a large number of sub-distributors, and we have converted sub-distributors with strong credentials and track record to distributors with whom we contract directly. See “— Relationship with Our Distributors — Management of Distributors” for further details. In cities where the “two-invoice system” has not been implemented, we allow distributors to engage sub-distributors to facilitate the sales and distribution of our products.

We typically provide distributors who have met certain periodic sales targets discretionary volume discounts. We also offer discounts to our distributors who make full prepayment to enhance our liquidity position. We believe these mutually beneficial arrangements incentivize our distributors while mitigate potential risks associated with the expansion into new markets.

Relationship with Our Distributors

Distribution Agreement and Sales Agreement

Our distributors are required to comply with our standard distribution agreement and sales agreements they entered into with us. The principal and general terms of our standard distribution agreements and purchase agreements with our distributors are as follows:

- | | |
|---|---|
| Duration: | We generally enter into one-year distribution agreement with our distributors. Individual sales agreements are separately entered into for each purchase. |
| Geographic or other exclusivity: | Our distribution agreements specify the relevant products to be distributed and the geographic regions for which the distributor is responsible. The agreements also prohibit distributors from selling our products outside their respective designated geographical regions. |
| The rights and obligations of parties involved: | <p>We are obligated provide pharmaceutical products that meet the national quality standards and bear the logistic expenses. We should have all the qualifications and certificates to produce the products.</p> <p>The distributors are obligated to act in compliance with our distribution agreements and sales policies, and any breach of the sales policies will constitute a breach of the distribution agreement.</p> |
| Sales and pricing policies: | Under our distribution arrangements, we sell our products to our distributors at wholesale prices, and our distributors purchase our products from us and subsequently sell our products within a designated region to hospitals, other medical institutions and drugstores. Alternatively, our distributors purchase products from us and sell to sub-distributors who subsequently sell our products to hospitals, other institutions and drugstores. Our distributors may only sell to our sub-distributors at the same price as they purchased from us, without taking into account volume and other discounts. The price at which our distributors and sub-distributors sell to hospitals, other institutions and drugstores should be determined with reference to the price suggested by us, provided that such price is no less than the minimum price set by us. |
| Obsolete stock arrangements: | Each of our pharmaceutical products has a specified expiry period. Our distributors are not allowed to sell any expired pharmaceutical products. |
| Goods return arrangements: | We generally only accept sales returns for defective or damaged products within the shelf life that are caused by us. We don't accept returns of obsolete stock of our distributors. |

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Sales and expansion targets:	<p>Our distribution agreements typically have certain periodic sales targets to facilitate our evaluation of the performance of our distributors. Failure of our distributors to achieve the sales targets by our distributors may result in non-renewal and/or early termination of the distribution agreement.</p> <p>We set the periodic sales targets with reference to the credit history, distribution network, historical purchase amount and sales performance of the distributors and sub-distributors. When determining the purchase targets for our sub-distributors, we also take into account the relevant sales targets of the respective distributors from whom they purchase our products.</p> <p>In general, we offer annual rewards to our distributors which have met certain periodic sales targets. Such rewards are normally in the form of volume discounts. We usually deduct the amount of volume discount from the distributor's purchase in the following year from us, and the remaining amount is paid upon the termination of the distribution agreement, provided that the termination is not due to the breach of distribution agreement by the distributor.</p>
Sales and inventory reports and estimates:	<p>Our distributors are required to provide us with a product flow report containing information in relation to our products that they distribute, including monthly inventory level and sales volume.</p>
Minimum purchase amounts:	<p>We generally enter into distribution agreement with our distributors with annual sales target instead of minimum purchase obligations.</p>
Payment and credit terms:	<p>Our distributors pay us via wire transfers or bank acceptance notes.</p> <p>We typically provide credit terms up to three months to all of our distributors for generic drugs. For new drugs and OTC medicines, we sometimes extend credit terms up to six months during the Track Record Period to further promote sales of them. Meanwhile, we offer discounts to our distributors who make full prepayment to enhance our liquidity position. Our distributors may elect to enjoy the credit term, or prepay us at discounted prices.</p>
Conditions for terminating and renewing the agreements:	<p>We may terminate the distribution agreement if the distributor (i) fails to meet periodic sales targets, (ii) fails to satisfy the prerequisites for distributors of pharmaceutical products, including the losing of GSP certificate, (iii) sell our products to other distributors of us; or (iv) materially breaches the agreement by selling below minimum price set by us or outside their designated regions. Our distributors are obligated to act in compliance with our sales policies, and any breach of the sales policies will constitute a breach of the sales agreement.</p>

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Use of brand name:	Our distributors are prohibited from use of our name or brand name without prior written consent from us.
Additional provisions for three-way agreements with our distributors and sub-distributors:	<p>The sub-distributors may sell the products at a price no less than the price it purchased such products from our distributors.</p> <p>Our sub-distributors are required to provide us with a product flow report containing information in relation to our products that they distribute, such as inventory level and sales volume monthly.</p>

We require all our distributors to enter into an annual distribution agreement with us since 2017. Historically, we sold our products without the annual distribution agreement, primarily to certain distributors who have small purchase volume or are phasing in or out of our distribution network, including new distributors with little or no previous experiences or distributors with diminishing procurement volume. They are nevertheless subject to the same supervision and management measures from us as detailed in “— Management of Distributors”, including close monitor from our sales representatives. In each of 2015 and 2016, revenues generated from them accounted for approximately 7% of our total revenue.

Management of Distributors

Our distributors are required under PRC law to obtain medicine operation certificates and GSP certificates, which are prerequisites for retailers or wholesalers of pharmaceutical products to sell and distribute pharmaceutical products. In accordance with relevant laws and regulations and our internal policy, we require our distributors to obtain the necessary licenses and certificates required for distributing pharmaceutical products in the PRC. See “Regulations — Distribution” for further details. We constantly review the licenses and certificates of our distributors, including routine examination by our sales representatives and quarterly review at the headquarters level, and terminate our relationship with distributors who lose such licenses and certificates as soon as possible.

We collect, review and analyze data on the sales performance of our distributors. Our distributors are required to provide us with a product flow report containing information in relation to our products that they distribute, such as inventory level and sales volume, on a monthly basis. Our distributors replenish inventory regularly, usually once to multiple times a month. Our sales representatives conduct scheduled inspections and occasional surprise inspections of our distributors to monitor the inventory level and the practice of the distributors. To our knowledge, none of our distributors have experienced material amount of obsolete inventories during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material sales returns from our distributors or direct sales customers and had not experienced any material customer complaint, product recall and product liability or other legal claims due to problems with the quality of our products. In addition, we offer substantial support to our distributors, including sales personnel training and providing promotion materials.

To mitigate the risk of cannibalization among our distributors, where we engage more than one distributor in a given geographical region, we would clearly delineate their product or channel coverage, while our distribution agreements explicitly prohibit our distributors from selling our products outside the respective designated geographical regions. We believe that distributors of pharmaceutical products

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focusing on different distribution channels (such as hospitals or drugstores) and targeting distinct end-customers, even in the same geographical markets, do not have a high degree of competition among them. In addition, as part of the PRC regulatory regime, hospitals cannot purchase medicines from distributors without the endorsement of the manufacturer, therefore we can effectively avoid potential competition and cannibalization among distributors. Furthermore, eliminating sub-distributors and directly contracting with previous sub-distributors with strong credentials and track record facilitates us in managing our distribution network and enforcing our anti-cannibalization policy. As such, we consider that we have established an effective policy and system that could prevent cannibalization among our distributors.

To enforce our distributor management policies, we have adopted a series of measures, including (i) conducting scheduled inspections to keep track of the status of their licenses and certificates, their inventory level and the sales of our products; (ii) reviewing the product flow reports containing information in relation to our products that they distribute, such as inventory level and sales volume from our distributors; (iii) tracking where each batch of our products is sold through the pharmaceutical electronic supervision codes and barcodes labeled thereon; and (iv) establishing an inspecting team to supervise our distribution network, including a customer feedback mailbox to receive complaints and reports of policy-violating activities of our distributors. Our inspecting team comprises officers of the sales department at our headquarters and senior sales representatives. In addition to evaluating the performance of our sales representatives, the inspecting team is also responsible for investigation and verification when policy-violation by a distributor is discovered by the sales representatives or reported via the feedback mailbox. In addition, the inspecting team also actively conduct scheduled and random checks on the product flow and market price. For instance, the inspecting team conducts interviews with our end customers and inspects the sales invoices issued by our distributors to their customers to ensure that they do not sell our products to their customers below the minimum selling prices provided by us.

Our distributors are liable for breaches of the relevant distribution agreements and sales policies and are responsible for indemnifying us for damages and losses as a result of such breaches. In accordance with the distribution agreements, we are also entitled to terminate the distribution agreement and cancel the part or all of the rewards that they have earned or terminate the distribution agreements in the event of material breach of the agreements by our distributors, such as their failure to sell our products within the regions designated under the distribution agreements. Further, our distributors can assist us to monitor the performance of the sub-distributors that have entered into sub-distribution agreements with us. In the event of breach by the sub-distributors, we may held our distributor jointly liable. During the Track Record Period, most of our distributors complied with the distribution agreements in all material aspects.

As we only select distributors with a strong credit record and steady cash flow, we had not experienced any material delay in payment by our distributors during the Track Record Period and up to the Latest Practicable Date. See “Financial Information — Analysis of Selected Statement of Financial Position Items — Trade Receivables” for more details.

We have maintained a long-standing relationship with our distributors. As of December 31, 2017, we had more than 500 distributors with no less than seven years of relationship with us, and sales to these distributors contributed to approximately half of our revenue throughout the Track Record Period.

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In particular, the number of our distributors grew significantly during the Track Record Period, due to our efforts to achieve deeper market penetration. The table below sets forth the movement of the number of our contractual distributors during the Track Record Period:

	Year Ended December 31,		
	2015	2016	2017
Opening Balance.	683	811	941
Addition	334	340	736
Non-renewal or terminated.	206	210	30
Net Increase/(Decrease).	128	130	706
Closing Balance	811	941	1,647

We actively manage our distribution network and regularly review the performance of each of our distributors. Even though our distribution agreements typically do not have an automatic renewal clause, we typically renew our distribution agreement with our distributors. During the Track Record Period, the primary reason for non-renewal or termination were (i) distributors’ unsatisfactory performance and (ii) distributors’ loss of necessary licenses and certificates.

In 2017, the “two-invoice system” was introduced, which allows only one invoice between the pharmaceutical products manufacturer and the pharmaceutical distributor, and one invoice between the pharmaceutical distributor and the hospital, and thereby only allows a single level of distributor for the sale of pharmaceutical products from the pharmaceutical manufacturer to the hospital. In response, we eliminated a large number of sub-distributors and contracted with these sub-distributors with strong credentials and track record directly, which resulted in a substantial increase in the number of our distributors. We do not believe the substantial increase in the number of distributors create any undue burden on our distributor management effort primarily because (i) most of these newly added distributors used to be our sub-distributors which were also under our management and monitoring, and the difference in resource and efforts in managing distributors and sub-distributors are not materially different; and (ii) any incremental efforts and resources that are required to manage these distributors can be compensated by the benefit on putting these distributors directly under our management, as the current structure is more streamlined and our policy can be implemented directly by us without the assistance of any third-party distributor, which we believe strongly promotes operational efficiency. As most of these new distributors were sub-distributors for our products in our existing geographical markets, we do not believe the conversion from our sub-distributors to our distributors to have any impact on the geographical and product coverage of our distribution network. As we in general do not accept return of our products, the terminated distributors are responsible for selling the products. However, in order to avoid these distributors to sell our products outside of the region, we actively assisted these distributors in reselling our products to other distributors at a reasonable price. To the extent the distributor is terminated before it lost its qualification to distribute pharmaceutical products, our sales representatives will assist them in transferring the products to other distributors at a reasonable price. If such distributor still owes us payment, we may choose to repossess the unsold stock to offset the payment obligation.

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To ensure our distributors' compliance with applicable anti-corruption laws and regulations and our anti-corruption policy, we require each of our distributors to sign an undertaking to this effect. According to our detailed anti-fraud, corruption and bribery policy and response plan, we encourage our employees and any person who has direct or indirect business relationship with us to report directly to us any actual or suspected fraud, corruption or commercial bribery circumstance in our business process through various channels such as telephone, emails and letters. Violation of the undertaking will result in forfeiture of deposits and we may terminate the relevant distribution agreement.

Going forward, we plan to continue to select reputable distributors to leverage their existing distribution networks and relationships with key hospitals, other medical institutions and drugstores to establish our presence. We also plan to further expand our current network of distributors and expand its coverage to additional local markets. In addition, we plan to strengthen and continue our long term collaborative relationships with our distributors. Please see “— Strategies — Expand our sales and distribution network and deepen its penetration” for more details.

According to our accounting policies, revenue is normally recognized when ownership of the pharmaceutical products and the related risk and rewards of ownership are accepted by our customers. This is usually at the time when products are delivered and our distributors have accepted the products.

Direct Sales

We sell products in certain specific packaging types and dosages directly to customers, primarily drugstore chains, who subsequently sell our products to end-users through various outlets within the drugstore chain in a specific region or regions. While we engage in both direct sales and sales to distributors, we are able to avoid competition between them by (i) separation of packaging types and dosages of products sold to distributors and drugstore chains; and (ii) separation of target channels. Our distributors have a wide variety of target channels, including hospitals, other medical institutions, wholesalers and retail drugstore, while our direct sales customers are primarily drugstore chains. Furthermore, while both we and our distributors sell our products to drugstore chains, we manage the risk of cannibalization between us and our distributors by requiring (i) our directly engaged drugstore chains to sell our product only within their own drugstores, (ii) our direct sales team not to contact drugstore chains in regions that are covered by our distributors, and (iii) our distributors not to market or promote our products to any of our direct sales customers. Violation of such policy will result in warning for the first time offender and suspension or termination of the relevant sales agreement for second time offender or internal penalty on our own sales team. As of December 31, 2017, we had annual sales agreements with a total of 169 direct sales customers in China. We select our direct sales customers based primarily on their reputation and market coverage. All of our direct sales customers during the Track Record Period to which we sold our products to are independent third parties.

Duration:	We generally enter into one-year sales agreement with our direct sales customers we collaborate with.
Geographic or other exclusivity:	Our direct sales customers sell our products in drugstores operated by them.
Sales and pricing policies:	Our direct sales customers shall not sell our products at prices lower than the minimum retail price set by us, whether in the form of special event or promotion.

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Sales and expansion targets:	Our agreements with our direct sales customers typically have certain periodic sales targets. Failure of our direct sales customers to achieve the sales targets may result in non-renewal and/or early termination of the agreement. In general, we offer annual rewards to our direct sales customers which have met certain periodic sales targets.
Sales and inventory reports and estimates:	Our direct sales customers are required to provide us with a product flow report containing information in relation to our products that they sell, such as inventory level and sales volume monthly.
Minimum purchase amounts:	We generally enter into agreements with our direct sales customers with annual sales targets instead of minimum purchase obligations.
Payment and credit terms:	During the Track Record Period, our direct sales customers pay us via wire transfers or bank acceptance notes. Our direct sales customers are typically required to pay the purchase amounts monthly.
Promotion:	Our direct sales customers are required to take various measures to promote our products, including (i) display of our promotion materials and (ii) where applicable, listing the sale of our products as factors to evaluate the performance of drugstores and manager of the drugstores operated by the drugstore chains.
Conditions for terminating and renewing the agreements:	We may terminate the annual sales agreement if our direct sales customers (i) fail to meet periodic sales targets, (ii) fail to promote our products in all drugstores operated by them, or (iii) materially breach the agreements by selling below minimum retail price set by us.

Pricing Strategies

We have devised different pricing strategies for different types of products, which are closely linked to the channels through which these products are sold. For example, our Shuanghuanglian Injections are prescription drugs primarily sold to hospitals primarily through online direct procurement as detailed below. On the other hand, our Shuanghuanglian Oral Solutions are OTC drugs and sold to hospitals and other medical institutions through statutory tender process as detailed below or to drugstore chains based on commercial negotiation. During the Track Record Period, substantially all of our pharmaceutical products sold to the non-profit hospitals or other non-profit-making medical institutions were through the collective online direct procurement, collective statutory tender processes or as an alternative medicine selected by the bid evaluation committee.

When setting the wholesale price of our products, we primarily consider (i) the production costs and selling expenses associated with the products, (ii) the wholesale price of products offered by other market players, (iii) an acceptable profit margins for both ourselves and our distributors, and (iv) other prevailing market condition, including supply and demand dynamics driven by outburst of epidemic such as cold and flu. As none of our products are not subject to any direct wholesale price restrictions, we in general have the flexibility to set the wholesale price based on these factors. However, for

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pharmaceutical products sold to non-profit hospitals or other non-profit-making medical institutions through the collective online direct procurement or collective statutory tender processes, our ability to set the wholesale prices of our products can be restricted by (i) bidding price for products sold to hospitals through statutory tender process, and (ii) a mutually agreed price that is within the limit for the low price drug as detailed below. Therefore, we need to further take these factors into consideration to set a wholesale price that allows both our distributors and ourselves to maintain an acceptable profit margin.

In 2016 and 2017, we were able to carry out a series of wholesale price rises as a result of favorable market condition (primarily driven by factors including growing health awareness and aging population, and as evidenced by the growth in retail volume of our products from 2015 to 2016) and the fact that the wholesale price of our products was relatively low. Our brand recognition and strong market presence also give us the leverage in raising our wholesale price. Such price raise resulted in short-term fluctuation of our sales volume. We believe such fluctuation in our distributors' purchase volume have stabilized as evidenced by our sales record in the three months ended March 31, 2018. See "Financial Information — Factors Affecting our Financial Condition and Results of Operations — Wholesale Price of our Products" for detailed discussion on the fluctuation of wholesale prices and sales volumes of our products during the Track Record Period. In particular, (i) for our Shuanghuanglian Oral Solutions, (a) in February 2016, we raised the wholesale price of our 8 x 20ml box by 38.5% and 10 x 20ml box by 30.6%, (b) in March 2016, we raised the wholesale price of our 10 x 10ml box by 15.4% and 12 x 10ml box by 20.0%, (c) in May 2016, we raised the wholesale price of our 12 x 10ml box by 5.6%, (d) in October 2016, we raised the wholesale price of our 10 x 10ml box by 13.3%, (e) in April 2017, we raised the wholesale price of our 8 x 20ml box by 9.3% and 10 x 20ml box by 7.8%, (f) in October 2017, we raised the wholesale price of our 10 x 10ml box by 8.2%, and (g) in December 2017, we raised the wholesale price of our 12 x 10ml box by 10.5%; and (ii) for our Shuanghuanglian Injections, in July 2016, we raised the wholesale price of our 5 x 20ml box by 26.3% and 4 x 20ml box by 5.6%. In conjunction of the wholesale price raise, we have also raised our sales commission rate to our sales representatives, upgrade our packaging to enhance a price for value perception, strengthen our cooperation with our distributors and expand our network and continue our efforts in promotion and advertisement. According to Frost & Sullivan, other major players also raised the wholesale prices of their products over the same period.

Going forward, our Directors expect to further raise the wholesale price of our products and further close the pricing gap with other major players, subject to market condition. In particular, our Directors expect that various favorable factors as discussed in "Industry Overview" and "— Our Products — Future Demand of our Shuanghuanglian-based Cold Medicines" will continue to drive the demand for our products, particularly our Shuanghuanglian-based Cold Medicines, which create room to further raise the wholesale prices of our products. As a result, we also expect the other major market players to increase their wholesale prices in view of such favorable market trends. However, as we have raised our wholesale prices several times in 2016 and 2017, we expect the wholesale prices of our products to increase at a slower pace in the near future as compared with the rate of increase during the Track Record Period, assuming there is no major outbreak of cold and other abnormal market condition. We do not foresee any market-driven wholesale price increase will have a material and adverse impact on our business and results of operations.

Price Control

Before June 2015, substantially all of our products are subject to retail price controls by the PRC government. As a result, these products could not be sold to the end customers above the prescribed maximum retail price at that time. Pursuant to the Notice Regarding Reforms to the Price of Medical Products, except for anesthetic and certain psychiatric drugs, government pricing restrictions were lifted with effect from June 2015. As we do not sell any anesthetic or psychiatric drugs, none of our products are subject to any government price control. While price controls are not directly imposed on us, such restrictions had an effect on our ability to determine the wholesale prices of our products, being the prices of our products sold to our distributors or the retail channels such as drugstore chains. This is because with the restrictions on retail prices in place, we may not able to freely raise our wholesale prices, as higher wholesale prices can result in profit margins being unacceptable to our distributors and retail channels, which in turn could stop them from making further purchases from us.

Under the retail price control previously in effect, the maximum retail price was RMB1.6 per 10ml for Shuanghuanglian Oral Solutions and RMB1.8 per 20ml for Shuanghuanglian Injections, respectively. By comparison, in 2015, the average selling price of our Shuanghuanglian Oral Solutions was RMB0.47 per 10ml and the average selling price of our Shuanghuanglian Injections was RMB1.19 per 20ml. Considering the gap between the then maximum retail price and our then wholesale price, we believe that the lifting of retail price control do not have an immediate effect on our ability to raise our wholesale price. In 2017, the average selling price for our Shuanghuanglian Oral Solutions was RMB0.67 per 10ml and the average selling price for our Shuanghuanglian Injections was RMB1.42 per 20ml, still lower than the previous retail price limit. However, the lifting of the restriction does enable us to further raise our wholesale price in the long run. The lifting of the retail price control also allows other market players to raise their wholesale price. For example, according to Frost & Sullivan, Talon, another major market player, also have raised the wholesale price of their various packaging types of Shuanghuanglian Oral Solutions several times since 2016.

Collective Statutory Tender Process

According to relevant PRC laws and regulations, except for those stipulated otherwise, all medicines used by (i) non-profit-making hospitals and other non-profit-making medical institutions established by the PRC government at the county level or higher, or (ii) all public hospitals should be procured through a collective statutory tender process. Pursuant to these collective statutory tender processes, local governments at provincial, municipal or district level compile a drug procurement catalog of the hospitals within its respective administration region. All drugs used by the medical institutions must be included in the catalog for collective procurement. The catalog also lists the classification of drugs to be procured through bids, negotiations, and direct purchased by hospitals or to be manufactured by designated manufacturers.

The drugs included in such catalog must be procured by way of open tender, invitation tender or collective direct purchase. Generally, the tender process is conducted once a year in each province. A bid evaluation committee of the local government or its designated institution selects the winning bids to supply a particular type of medicine. The selection is conducted on the basis of several factors, including the bidding price, product quality, curative effectiveness, and the pharmaceutical manufacturer's reputation and business scale. Hospitals and medical institutions then select one or more winning pharmaceutical manufacturers to supply the medicines by placing orders with the relevant pharmaceutical product distributors at the successful bidding prices. In addition, in cases when we do not participate or win the tender process, our products may still be selected as alternative medicines by

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the bid evaluation committee and we may still serve as an alternative supplier. We then sell the medicines to the non-profit-making hospitals or other non-profit-making medical institutions at mutually agreed prices no higher than the successful bidding prices.

Subsequently, the public hospitals and medical institutions sell the medicines to the end users at the retail sale price of the collective purchasing drugs promulgated by the competent department of price. Please refer to the section headed “Regulations — Drug Purchases by Hospitals” in this prospectus for further information on the PRC government’s imposition.

Collective Online Direct Procurement of Common Low-Price Drugs

Certain of our products are still subject to indirect price controls. In accordance with Circular of National Development and Reform Commission on Issues Concerning Improving the Price Management of Low-Price Drugs (國家發展和改革委員會關於改進低價藥品價格管理有關問題的通知), the NDRC published national list of medicines which includes medicines the average daily dosages of which cost no more than RMB3 for western medicines or RMB5 for PCMs, calculated based on the former maximum retail prices, or if not available, the national average retail prices of such medicines. The competent price departments at provincial level may publish local lists of medicines that fit into the price ranges (such national and local lists of medicines, collectively, the “**Common Low-Price Drugs Lists**”). If the average daily dosage of a medicine is beyond the respective price range, the medicine shall be removed from the Common Low-Price Drugs Lists and may not be sold to public medical institutions. As a result, while the prescribed price range described above does not directly limit the retail price of the medicines listed on such lists, manufacturers who wish to continue to supply their products to public medical institutions need to price their products within the prescribed range, and the Common Low-Price Drugs Lists thereby indirectly affect the retail prices of medicines listed therein. As of the Latest Practicable Date, nine of the 27 types of pharmaceutical products we sold, including our Shuanghuanglian Injections, were included in the Common Low-Price Drugs Lists, and the revenue generated by these nine types of products accounted for 34.5%, 24.1% and 25.5% of our revenue in 2015, 2016 and 2017, respectively.

Common low-price drugs used at public local medical institutions shall be procured collectively at the provincial level. In addition to the collective tender process, public hospitals may procure common low-price drugs directly from pharmaceutical manufactures that satisfy certain requirements to participate in the collective procurement on the online pharmaceutical procurement platform maintained or local government or its designated institution.

PRODUCTION

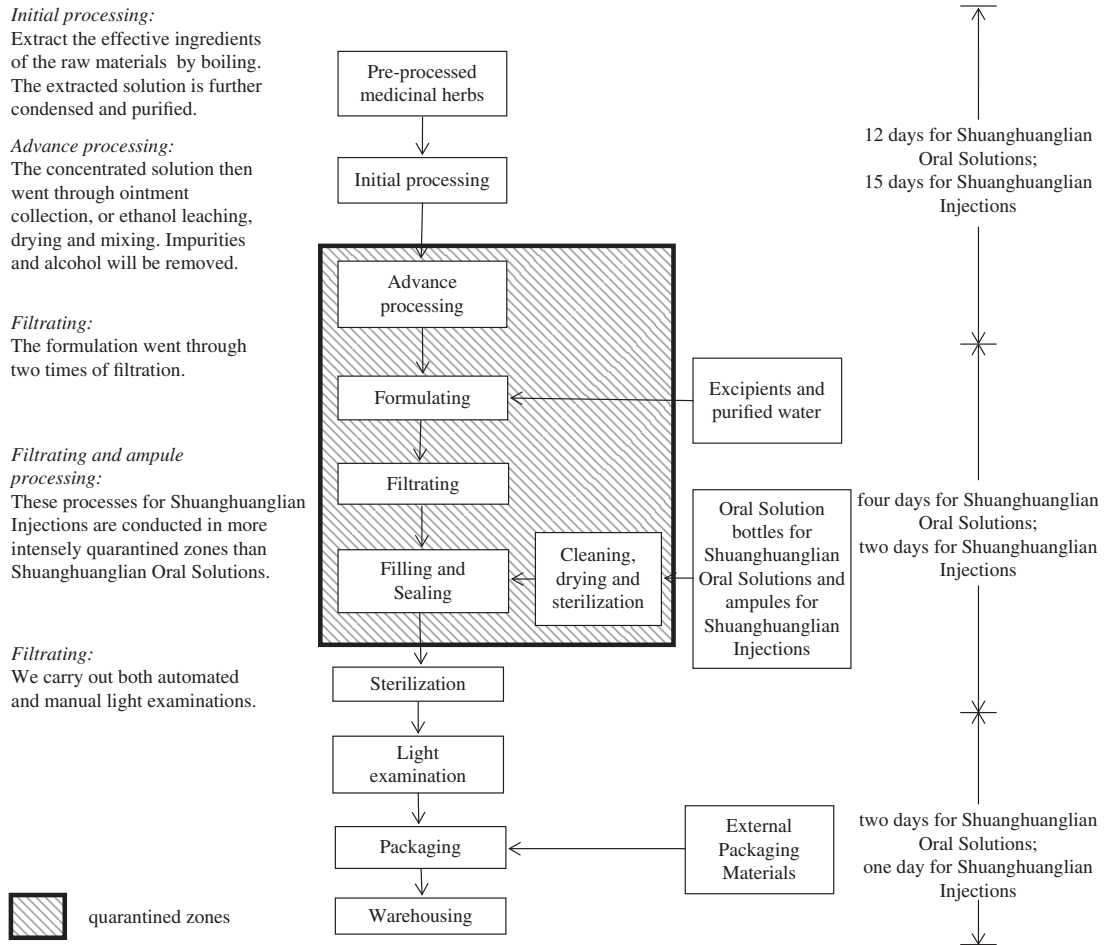
We produce all products at our modern pharmaceutical production facilities located at Xichuan County, Henan Province of the PRC. We have obtained GMP certificates for the production of our products in various dosage and formulation.

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Production Process

We produce Shuanghuanglian Oral Solutions and Shuanghuanglian Injections products with different production lines following similar production processes. The following flow chart summarizes the key steps to our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections products:

The following flow chart summarizes the key steps to our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections:



As required by our quality control system, we perform quality checks before initial processing, during different stages of production process and after packaging. It typically takes about 18 days for the production of a batch of both Shuanghuanglian Oral Solutions and Shuanghuanglian Injections.

Production Facilities

As of December 31, 2017, our production facilities had a total gross floor area of approximately 38,650 sq.m. As of December 31, 2017, we had 18 GMP-certified production lines that are capable of producing 71 types of PCM for the production of our PCM and western medicine products in five dosage forms as prescribed by the GMP, including small volume injection (including pre-treatment and extraction of traditional Chinese medicine), oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine). We own all of our production facilities and

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production lines. We have obtained medicine manufacturing permit, GMP certifications for all our production lines in operation as of the Latest Practicable Date and production permits for all our products. We conduct regular maintenance and repair work in compliance with GMP certifications. During the track record period, we had not experienced any suspension or termination of our GMP certifications or any licenses, permits or certifications necessary for the operation of our production plant.

The majority of equipment and machinery we use for production, including extracting tank, dual-effect concentrator, granulator, blender, filling machine, laminating machine, glass reactor, dryer, bottle washing machine, high-temperature tunnel oven, mixing machine, capping machine, steam sterilizer machine and labeling machine, were purchased in the PRC. We purchased certain machines for component analysis and quality inspection from reputable overseas manufacturers. Most of our equipment and machinery are automated to ensure efficiency and avoid contamination by human contact. In addition, major production processes are carried out in quarantined zones. Access to such zones is controlled and all personnel entering such zones should follow our standard operation procedures and requirements of law and regulations. We maintain our major equipment and machinery regularly and upgrade them on an as needed basis.

Our large-scale production enables us to achieve economies of scale while satisfying market demand. Meanwhile, the production of packaging materials for drugs in liquid formulations in-house enable us to integrate procurement, production and packaging in our strategically located production facilities to achieve synergies, including better control over production costs and product quality. The following table illustrates the production capacity and utilization rates for the production lines indicated:

	As of or For the Year Ended December 31,								
	2015			2016			2017		
	Designed Production Capacity ⁽¹⁾	Production Volume	Utilization rate (%)	Designed Production Capacity ⁽¹⁾	Production Volume	Utilization rate (%)	Designed Production Capacity ⁽¹⁾	Production Volume	Utilization rate (%)
Oral Solution ('000 liter) ⁽²⁾	3,800	3,827	100.7 ⁽³⁾	4,160 ⁽⁴⁾	5,397	129.7 ⁽³⁾	4,160	4,324	103.9 ⁽³⁾
Injection ('000 liter) ⁽⁵⁾ . . .	2,328	2,192	94.2	2,328	1,162	49.9 ⁽⁶⁾	2,328	1,591	68.4
Tablet ('000 unit) ⁽⁷⁾	520,000	172,520	33.2 ⁽⁸⁾	520,000	192,350	37.0 ⁽⁸⁾	520,000	316,456	60.9
Capsule ('000 unit) ⁽⁹⁾	336,000	243,520	72.5	336,000	214,450	63.8	336,000	220,317	65.6
Granule ('000 unit) ⁽¹⁰⁾	16,200	10,480	64.7	24,000	12,480	52.0	24,000	14,010	58.4

Note:

- (1) The designed production capacity is computed on the basis of 250 effective production days a year and eight effective production hours per day.
- (2) Refers to our GMP certified production lines for 20ml oral solutions and 10ml oral solutions. We utilize the production lines for the production of oral solution products including Shuanghuanglian Oral Solutions. During the Track Record Period, we have two production lines for 20ml oral solutions. In 2015, we had two types of production lines for 10ml oral solutions, namely four type A production lines (“Type A Production Lines”) and two type B production lines. In 2016, the four Type A Production Lines retired and we introduced four more production lines for 10ml oral solutions (“Type C Production Lines”). We kept utilizing the two type B production lines and four type C production lines for 10ml oral solutions in 2017.

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- (3) The actual production activities were conducted on two shifts of eight hours occasionally to meet the market demand for our Shuanghuanglian Oral Solutions, which result in the utilization rate for such production lines exceeding 100.0%.
- (4) The increase in designed production capability from 3,800 thousand liters in 2015 to 4,160 thousand liters in 2016 was due to the replacement of the four Type A Production Lines with four Type C Production Lines in 2016.
- (5) Refers to three GMP certified production lines for 20ml injections which we utilize for the production of Shuanghuanglian Injections, and four production lines for 2ml injections which we utilize for the production of Chaihu Injections during the Track Record Period.
- (6) The decrease in utilization rate of our injection production line was attributable to a decrease in sales volume of our Shuanghuanglian Injections, which in turn was the result of tightened regulation. See “Financial Information — Principal Components of Consolidated Statement of Profit or Loss and Other Comprehensive Income — Revenue — Revenue by Types of Products” for further details.
- (7) Refers to one GMP certified production line for tablets during the Track Record Period.
- (8) The low utilization rate was primarily attributable to that (i) we only had limited kinds of products in tablets and the market; and (ii) we were still in the process of developing, refining and expanding distribution channels for such products.
- (9) Refers to one GMP certified production line for capsules.
- (10) Refers to one GMP certified production line for granules which retired in 2015 and one new GMP certified production line for granules we utilized in 2016 and 2017.

Expansion Plan

We plan to establish the following facilities in connection with our production activities:

- additional production facilities for oral solutions in Xichuan County, Henan Province. Our budget for this additional production facilities is RMB150.0 million, of which RMB45.0 million will be used for the procurement of the land, RMB15.0 million will be used for the construction of the premises and the establishment of the plant, RMB80.0 million will be used for the purchase of production lines and other machinery and equipment and RMB10.0 million will be used for the installation of the machinery and equipment, trial production and application for the GMP certification. We plan to fund approximately RMB74.4 million of the expenditure by the net proceeds from the Global Offering, and the remaining amount from our cash in hand and bank borrowings. When the new production lines for oral solution is in full operation which is expected to be in 2020, our annual designed production capacity of oral solution is expected to increase from approximately 4.2 million liters to 6.5 million liters. The incremental production capacity supports our revenue growth by capturing the expected growth in demand of Shuanghuanglian Oral Solutions in China, which, according to the Frost & Sullivan Report, is expected to grow in a CAGR of 12.4% from 2017 to 2022.

While historically we have implemented a 2-shift production schedule from time to time in response to spike in orders we received, we consider the establishment of new production facility serves our long-term interest and support our long-term development better than increasing the output at our current production facilities through a 2-shift production schedule. With the newly established production facilities, we may employ state-of-the-arts automated equipment to strengthen operational efficiency and quality control, thereby

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enhance our profitability. In particular, we plan to employ advanced automated production lines in our new production facilities. As compared with the production lines we currently use, the new production lines with more advanced production process and techniques will have the following benefits (a) lower raw materials loss during production process, (b) higher production yield rate and lower defect rate, (c) fewer number of employees in production process, (d) lower power consumption, and (e) longer intervals between maintenance and clearing and shorter time required for maintenance and clearing. As a result, we expect the use of these new production facilities and equipment will reduce the per unit costs of our products as compared with our current production facilities. In particular, based on our current estimation, given the same production output and with everything else being equal, the new production facilities and equipment to reduce our raw materials costs by approximately 10%, staffing costs by approximately 50% and energy costs by approximately 15% as compared with our current production facilities.

The benefit of automation and fewer employees will be magnified with larger production output. We estimate that we will incur an additional RMB22 million a year if we plan to increase our production capacity by implementing a 2-shift production schedule on a regular basis by increasing our staff members involved in the production processes from 594 as of December 31, 2017 to approximately 1,000. Furthermore, we may experience difficulty in recruiting sufficient skilled employees to carry out a regular 2-shift production schedule as we are not located in regions where skilled labors are in abundant supply, and we, which in turn may result in product quality issue.

In view of these benefits, we may also consider gradually expand the new production facilities to cope with the evolving technologies and production and quality control and achieve greater economies of scale and operational efficiency.

We expect to start procuring the land used for the new production facilities in September 2018 and commence the construction work in January 2019. We expect the construction work to be completed by the end of 2019 and the production facilities to be fully ramped up by the end of 2020.

- an intelligent warehouse and new facilities for initial and advanced processing of medicinal herbs in Xichuan County, Henan Province. Our budget for these facilities is RMB80.0 million, of which RMB24.0 million will be used for the procurement of the land, RMB8.0 million will be used for the construction of the premises and the establishment of the facilities and RMB48.0 million will be used for the purchase and installation of machinery and equipment. We plan to fund approximately RMB37.2 million of the expenditure by the net proceeds from the Global Offering, and the remaining amount from our cash in hand and bank borrowings. These new facilities are expected to be in full use in 2020. We believe the newly established intelligent warehouse and new facilities for initial and advanced processing of medicinal herbs will enable us to achieve lower costs in managing our inventory and enhance our production efficiency, thereby enhancing our profitability. Based on the current design, the intelligent warehouses to be established will enable us to achieve the following: (i) real time and precise monitoring and management of inventory, including raw materials as well as finished products, (ii) shorter time for sortation and delivery to production facilities, and (iii) fewer number of employees involve in warehouse and inventory management. As a

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result, we expect our intelligent warehouses to (i) facilitate a more efficient and precise inventory management and therefore better liquidity management; (ii) shorten our production process through a more efficient delivery schedule and therefore enhance our operational efficiency; and (iii) reduce our staffing costs by approximately 50% as compared with our common warehouses. The new intelligent warehouse also enhance the traceability of our raw materials by clearly documenting the source of raw materials and matching the batch of raw materials and the batch of products, which is consistent with the regulatory advocacy for the informatization of the medicine manufacturing processes. In addition, the capacity of our current warehouses can only satisfy our need based on our current production capacity. A new warehouse with larger capacity is therefore necessary to cope with our production capacity expansion plan as we expect that extra storage space of 1,350 square meters for raw materials and 1,680 square meters for work in progress and finished goods will be required as a result of the establishment of the additional production facilities for oral solutions and expected increase of sales volume of our products. On the other hand, the new facilities for advanced and initial processing also facilitate us in minimizing raw materials loss during production process and is expected to lower our per unit raw material costs by approximately 10%.

As our current warehouses and storage facilities were established more than a decade ago, the cost for upgrading these facilities would not be considerably lower than establishing a new one. The newly established intelligent warehouse and facilities for initial and advanced processing also facilitates us in integrating the inventory replenishing and raw material processing process, which cannot be achieved by upgrading our current warehouses and storage facilities due to space and design constraints.

We expect to start procuring the land used for the new production facilities in September 2018 and commence the construction work in January 2019. We expect the construction work to be completed by the end of 2019 and the production facilities to be fully operational by the end of 2020.

As of the Latest Practicable Date, we had not commenced these expansion plan and had not incurred any capital expenditure in connection thereof.

Production Plan

Our annual production plans are formulated in the fourth quarter of each year. The Corporate Management department, coordinating with all our major departments, formulates an proposed annual production plan based on the economic indicators of the year and current production and sales capabilities, which is issued to all departments and subsidiaries for discussion. Our Board of Directors and executive officers including heads of sales and production departments determine the annual production plan based on the proposed annual production plan and feedbacks from the departments and subsidiaries. More detailed quarterly and monthly production plans are made with reference of the annual production plan in view of the then current market condition, condition of supply of raw materials, production capabilities, level of inventories, and condition of cash flow. Historically, we have experienced seasonality in our sales and therefore production activities, with summer being the low seasons and spring, autumn and winter being the peak seasons. As most of our products have a relatively

long shelf life of two years or longer, we enjoy more flexibility adjusting our production plan in case of market fluctuations. For instance, in case of excessive production in any given month, we have the option of shipping such surplus first and reduce production in the current month.

SUPPLY, PROCUREMENT, INVENTORY AND LOGISTICS

Our primary raw materials include (i) medicinal herbs used for the production of our PCMs such as *Ionicera japonica* for our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections, and (ii) other chemicals, auxiliary and packaging materials, including chemical APIs in our medicines such as Clarithromycin for our Clarithromycin Sustained Release Tablet, and excipients in our medicines, such as ethanol, hydrochloric acid, sodium hydroxide and lactose and packaging materials such as glass, polyvinyl chloride and paperboard and other auxiliary materials. The in-house production of key packaging materials for oral solutions and injections enables us to integrate procurement, production and packaging in our strategically located production facilities in Xichuan County, Henan Province to achieve synergies, including better control over production costs and product quality. We have obtained all relevant licenses and certificates for the production of such packaging materials. We mainly procure the packaging materials for oral solid formulations including tablets, capsules and granules, and labeling and exterior packaging materials. We purchase our raw materials only from our list of pre-approved suppliers that meet our quality standards. We engage a few pre-approved suppliers for each kind of raw materials we procure. We purchase all of our raw materials from suppliers in China.

From 2016 to 2017, market prices of baikal skullcap root and forsythia, both our major raw materials, remained relatively stable, while market price of *Ionicera*, another major raw material for our products, has been gradually increasing since April 2017, but still by less than 30%, both according to the Frost & Sullivan Report. In the future, to the extent we are not able to pass down any material increase in the price of our major raw materials, we might experience lower sales volume and therefore

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lower revenue and profit. See “Risk Factors — Risks Related to our Business — We rely on a stable supply of quality raw materials to manufacture our products, and a decrease in the supply, or an increase in the cost, of these raw materials could materially and adversely affect our business, financial condition and results of operations”. Set forth below are sensitivity analysis of the impact to our results of operation for during the Track Record Period from the fluctuation of the raw materials used.

Hypothetical changes in raw materials used in 2015	+20%	+15%	+10%	+5%	-5%	-10%	-15%	-20%
	<i>(in RMB thousands)</i>							
Raw materials used	93,589	89,689	85,790	81,890	74,091	70,192	66,292	62,392
Change in raw materials used . .	15,598	11,699	7,799	3,900	(3,900)	(7,799)	(11,699)	(15,598)
Change in profit for the year . .	(12,539)	(9,404)	(6,269)	(3,135)	3,135	6,269	9,404	12,539
	<i>(in RMB thousands)</i>							
Hypothetical changes in raw materials used in 2016	+20%	+15%	+10%	+5%	-5%	-10%	-15%	-20%
	<i>(in RMB thousands)</i>							
Raw materials used	111,531	106,884	102,237	97,589	88,295	83,648	79,001	74,354
Change in raw materials used . .	18,588	13,941	9,294	4,647	(4,647)	(9,294)	(13,941)	(18,588)
Change in profit for the year . .	(15,581)	(11,686)	(7,790)	(3,895)	3,895	7,790	11,686	15,581
	<i>(in RMB thousands)</i>							
Hypothetical changes in raw materials used in 2017	+20%	+15%	+10%	+5%	-5%	-10%	-15%	-20%
	<i>(in RMB thousands)</i>							
Raw materials used	100,442	96,257	92,072	87,887	79,517	75,332	71,147	66,962
Change in raw materials used . .	16,740	12,555	8,370	4,185	(4,185)	(8,370)	(12,555)	(16,740)
Change in profit for the year . .	(13,965)	(10,474)	(6,983)	(3,491)	3,491	6,983	10,474	13,965

During the Track Record Period, all of our suppliers of the raw materials except Fusen Chinese Medicine, from whom we purchase a portion of the medicinal herbs are independent third parties. See “Connected Transactions — Non-Exempt Continuing Connected Transaction — Purchase of Medicinal Herbs from Fusen Chinese Medicine” for details. Fusen Chinese Medicine collaborates with local farmers for the growth of medicinal herbs to ensure sufficient supply of quality medicinal herbs. The plantation bases of Fusen Chinese Medicine and the farmers Fusen Chinese Medicine collaborated with are all located in and around Xichuan County, Henan Province where, due to its climate, soil and natural resources, is naturally optimal for growing quality *Lonicera japonica* which is one of the major raw materials of our Shuanghuanglian-based cold medicine products. In addition, the close proximity of Fusen Chinese Medicine to the production source of *Lonicera japonica* best positions it in controlling the quality of *Lonicera japonica*, which in turn allows us to control the quality of a major raw materials of Shuanghuanglian-based cold medicines and exert strict control from the very beginning of the production process. We are typically provided with credit terms up to six months by all of our suppliers.

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Groups based on level of quality risks:

- Group C: packaging materials that do not have direct influence on the quality of the medicine, such as packaging belts, ink and paper boxes.

Selection criteria and process:

- When necessary, our Quality Control department, Quality and Technology Management department, and Material Supply department jointly inspect the production facilities of the potential suppliers, including inspecting the samples to ensure that the quality and standards of their production processes are in conformity with our quality requirements.
- Our Quality Control department performs checks on the qualifications of potential suppliers of Group C supplies. Such potential suppliers are required to possess all licenses and permits necessary to conduct their operations, which include business licenses, license of operating printing business, quality standard, inspection reports of the samples.

We maintain a pre-approved suppliers list and we only procure from these suppliers. Our Quality and Technology Management department monitor the quality inspection upon delivery of the supplies to our warehouses and the quality of the supplies from time to time. In addition, the pre-approved suppliers list is reviewed annually considering the quality of the supplies, the timeliness of delivery, after-sale services, and statuses and updates to the qualifications of the suppliers. At the annual review, we also inspect the production facilities of the potential suppliers and inspect the samples if necessary. In addition, we actively communicate and work with our suppliers to resolve any quality issues. The suppliers who fail to meet our standards during annual review, or by whom the raw materials supplied suffer from quality defects continuously will be removed from the pre-approved suppliers list.

Supplies required for our production are generally readily available in the market through many suppliers. Therefore, we generally do not enter into any long-term supply agreements with the medicinal herbs and chemicals we use, while we generally enter into annual supply agreements with our suppliers of packaging materials. We typically use a tender process on an as-needed basis in selecting third-party suppliers for the medicinal herbs and chemicals and request our pre-approved suppliers to provide a proposal with a fee quote. In making our decision, we consider quality, their proposed price, delivery schedule, reputation for reliability and as well as our previous experience working with them. In addition, we also procure medicinal herbs from the Fusen Chinese Medicine without going through a tender process at the prevailing comparable market price. See “Connected Transactions — Non-Exempt Continuing Connected Transaction — Purchase of medicinal herbs from Fusen Chinese Medicine” for details.

We enter into procurement agreements with suppliers of medicinal herbs and chemicals who win the tenders. Pursuant to such procurement agreements, the suppliers provide specific raw materials in accordance with our internal standards. The suppliers shall ship the raw materials to our warehouses and bear the shipping costs. We conduct thorough inspection and examination and sample testing upon delivery to our warehouse. Any raw materials delivered that fail the quality inspection will be returned

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to the suppliers. The supplier remains responsible for the quality of the raw material until the earlier of (i) the raw materials have successfully passed the quality inspection; or (ii) ten days from when we received the raw materials has expired if we have not raised any objections. After the raw materials successfully pass the inspection, we will pay the purchase price to the relevant suppliers.

We enter into annual supply agreements with suppliers of packaging materials to ensure stable supply of packaging materials. Pursuant to such annual supply agreements, the suppliers provide specific packaging materials to us. The suppliers shall ship the raw materials to our warehouses and bear the shipping costs. We conduct thorough inspection and examination and sample testing upon delivery to our warehouse. After the raw materials successfully pass the inspection, we will pay the purchase price to relevant suppliers. We pay our suppliers by bank acceptance notes as well as wire transfer.

As we consider the location of plantation fundamental to the quality of the medicinal herbs, we generally purchase each kind of medicinal herbs from one or two specific locations. In addition, we usually contract with one or two suppliers for each major type of API for each purchase due to the requirement to file information of our API suppliers on record with the CFDA at the provincial level, which may take substantial time. However, we may replace them with other API suppliers that are readily available in the market as there are abundant supplies of these products in the PRC. As of December 31, 2017, we have 186 pre-approved suppliers, among which 24 are suppliers of medicinal herbs and 162 are suppliers of auxiliary and packaging materials. We maintain at least two suppliers for each major raw material in our pre-approved suppliers list and adopt the tender process to select from no less than three suppliers in order to diversify our supplier base and help to ensure a reliable supply of raw materials at reasonable prices. As such, our Directors are not of the view that we are exposed to significant concentration risks of the suppliers. For the years ended December 31, 2015, 2016 and 2017, purchases from our five largest suppliers accounted for approximately 41.7%, 47.9% and 44.4% of our total purchases for the corresponding periods, respectively. In the same periods, purchases from our single largest supplier accounted for approximately 24.1%, 18.6% and 14.6% of our total purchases for the corresponding periods, respectively. Our Directors confirm that, as of the Latest Practicable Date, all of our five largest suppliers except for Fusen Chinese Medicine were independent third parties and none of our Directors or their associates or our existing Shareholders who, to the knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest suppliers except for Fusen Chinese Medicine. Please also refer to the section headed “Relationship with Controlling Shareholders — Independence from Controlling Shareholders — Operational independence — Our relationship with Fusen Chinese Medicine” for further details of our relationship with Fusen Chinese Medicine.

We maintain stable and long term relationships with our suppliers, which we believe help to ensure a reliable supply of raw materials at reasonable prices. We have collaborated with all of our three largest suppliers for more than three years. In particular, we have collaborated with our largest supplier for more than 10 years.

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Our Major Suppliers

The following tables set forth our top five suppliers and certain other information for the periods indicated:

Year ended December 31, 2017

Rank	Supplier	% of total purchase during the period	Procurement
1	Supplier B	14.6%	Medicinal herbs
2	Fusen Chinese Medicine	13.9%	Medicinal herbs
3	Supplier A	8.0%	Medicinal herbs
4	Supplier H	4.1%	Medicinal herbs
5	Supplier D	3.8%	Ancillary materials
		<u><u>44.4%</u></u>	

Year ended December 31, 2016

Rank	Supplier	% of total purchase during the period	Procurement
1	Supplier B	18.6%	Medicinal herbs
2	Fusen Chinese Medicine	15.4%	Medicinal herbs
3	Supplier E	5.5%	Glass vials
4	Supplier F	4.6%	Medicinal herbs
5	Supplier A	3.8%	Medicinal herbs
		<u><u>47.9%</u></u>	

Year ended December 31, 2015

Rank	Supplier	% of total purchase during the period	Procurement
1	Supplier B	24.1%	Medicinal herbs
2	Supplier F	5.1%	Medicinal herbs
3	Supplier E	4.8%	Glass vials
4	Fusen Chinese Medicine	3.9%	Medicinal herbs
5	Supplier G	3.8%	Packaging materials
		<u><u>41.7%</u></u>	

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Inventory Management

We have three warehousing facilities as of the Latest Practicable Date with a total storage space of approximately 6,223 sq.m., all of which are located in Xichuan County, Henan. Our inventories are warehoused in accordance with the stringent requirements prescribed by GMP.

We have established inventory control procedures to track in-comings and out-going inventory, and implemented a first-in first-out system as part of our inventory management policy. To avoid the accumulation of our inventory, we arrange the procurement and delivery of various raw materials according to our production plan, while considering the current prices and price trends of the raw materials. To make sure sufficient supply of raw materials throughout the year at reasonable prices, we follow our internal guidelines to replenish our inventory in accordance with market conditions. We typically keep an inventory of raw materials that can meet no less than two months of our production need. Historically, we have not experienced any shortage of raw materials. On the other hand, our production plan based on annual sales forecast enables us to avoid accumulation of finished goods in our inventory. The shipment of our finished products also follows the first-in first-out system, and as most of our products have a shelf life of two years, in case of excessive production in any given month, we have the option of shipping such surplus first and reduce production in the current month. In addition, each of our pharmaceutical products is assigned with a pharmaceutical electronic supervision code and a unique barcode which is printed on its package and is reported to the CFDA for tracking. We utilize the pharmaceutical electronic supervision code and barcodes on our products to facilitate us in monitoring our inventory level. Furthermore, our sales representatives monitor the inventory status of our distributors from time to time to facilitate the devise of our sales and production plan. See “Financial Information — Analysis of Selected Statement of Financial Position Items — Inventories” for details of our inventory during the Track Record Period.

Logistics

We engage qualified specialized logistics companies to transport and deliver our finished products from our warehouse for finished products to the warehouse designated by the distributors, or drug store chains or standalone drugstores to which we sell our products directly. When selecting a logistics service provider, we typically consider their specialty and professional qualification, service network, transportation efficiency, transportation capability, price, reputation and their track records. We normally enter into fixed-term agreements with logistics companies and evaluate their performance on a regular basis. These outsourcing arrangements allow us to reduce our capital investment and the logistics companies bear the risks associated with the delivery of our pharmaceutical products, including those arising from traffic accidents or delivery delays.

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

QUALITY CONTROL

We believe product quality is of paramount importance to our brand value and our corporate image. We strictly follow the GMP standards in the production process of our medicines. We have devised and implemented a comprehensive quality control system that covers every aspect of our production activities to ensure the safety and quality of our products. Our comprehensive quality control system comprises quality target set by our senior management, supplier selection guidelines, raw material procurement guidelines, production line control, product sampling, collection and management of product quality data, product delivery and after-sales tracing. From research and development, product development, procurement of equipment, production and inventory control to shipment, we strictly control the quality of our products, to ensure our products meet our stringent internal standards as well as national and industry standards, including the GMP standards. Such comprehensive quality control system enables us to establish an end-to-end close-loop production system to ensure strict adherence to the highest safety and quality standards. Every single product we produce has a pharmaceutical product electronic supervision code and a barcode on the packaging and we utilize the pharmaceutical product electronic supervision code and barcodes to ensure full traceability of our products. For our core products, we have accumulated substantial production experiences, which enable us to develop proprietary production process monitoring software, including our computerized monitoring and control system for PCM extraction and monitoring system for injection content uniformity, all of which enhance our production efficiency and ensure product safety and quality.

We devote significant resources to quality control of our products. Our quality control system is led by Ms. Meng Qingfen, our Executive Director, who has pharmacist qualification, and we had a total of 1,116 sq.m. of area dedicated to quality control related activities as of December 31, 2017. All our operational departments are actively involved in our quality control activities, and we had 39 dedicated quality control staff members as of December 31, 2017.

We provide regular and continuing trainings to our quality control staff so that they are familiar with the requirements of the GMP standards. In accordance with our quality control policy, all of our laboratory and sampling specialists have taken relevant practice training and passed relevant assessments, and all of our sampling specialists for PCM raw materials have PCM or related educational background and relevant working experience in the production and quality control of PCM. We believe that our effective end-to-end quality control system will further strengthen our reputation and our competitive position.

We have obtained the GMP certificates from CFDA for all 18 of our production lines we utilize as required under the PRC laws. We have also obtained production permits for all our pharmaceutical products as required under the PRC laws. In the application process of the production permit, the relevant government authorities conduct rigorous review as to the specification and assembly process of the product. After granting the production permit, the relevant government authorities also conduct random inspection at our assembly facilities and sampling tests of our finished products. See “Regulatory Overview” for further details. As of the Latest Practicable Date, we have obtained all the requisite production permits for our products. In recent years the PRC government has been raising the quality standards for pharmaceutical products to ensure product safety. We expect to benefit from these stringent regulations because of our high quality standards, which we believe give us an additional competitive advantage over potential competitors.

Quality Control for Raw Materials

Our strict supplier selection criteria are critical in ensuring our product quality. We implement stringent quality control standards with respect to the raw materials we source from external suppliers and stringent evaluation and engagement policies for new suppliers. We purchase from qualified suppliers only, and the qualification process include rigorous requirements on quality control in accordance with the GMP standards. We require each of the suppliers of the APIs for the western medicine products we produce to obtain GMP certification, and each of the suppliers of the raw materials for our PCMs to satisfy our internal standards. For example, our Material Supply department reviews the relevant qualifications of the suppliers during the selection process. We also conduct on-site review and inspection for the potential suppliers of Group A raw materials and selective Group B raw materials when necessary, procure product samples from the potential suppliers for inspection and testing by the Quality Control department, to ensure quality and consistency of the raw materials.

A supplier will only be qualified if it passes these reviews. We conduct thorough inspection and examination and sample testing upon delivery to our warehouse. Any raw materials delivered that fail the quality inspection will be returned to the suppliers. Our Quality and Technology Management department monitors the quality inspection upon delivery of the raw materials to our warehouse and the quality of the raw materials from time to time. In addition, the pre-approved suppliers list is reviewed annually considering the quality of the raw material, the timeliness of delivery, after-sale services, and statuses and updates to the qualifications of the supplier. During the Track Record Period, we have not returned any raw materials we purchased.

Quality Control during Production

We adopt stringent safety and quality standards at each stage of our production process. The infrastructure, equipment and machinery are designed, constructed, maintained and inspected in accordance with applicable quality standards, laws and regulations, especially the GMP standards. We require our personnel involved in production activities to strictly follow the standard operation procedures. We also require that all the components used in the production process to be strictly in compliance with our quality standards. We adopt strict hygiene standards in quarantined zones and at our production lines. All production employees are required to wear production uniforms, working caps and shoes. Access to our production line is controlled and each production staff is assigned to designated post(s) of a production line. Each stage of our production process is closely monitored by our Quality Control department. Semi-finished products are sample tested after each stage of the production process to ensure their compliance with GMP requirements and our quality standards. Only those products which pass the quality testing processes can proceed to the next stage of production. In particular, we carry out light examinations for every single one of our bottled product in liquid formulation prior to boxing with our automated light examination machine or by manual inspection, as we consider light examination to be the most efficient method to identify defect products the impurities in which exceed the threshold in accordance with our quality standards and GMP requirements.

Quality Control for Finished Products

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

After-Sale Services

Our sales team handles the after-sale services while our Adverse Reaction Surveillance office responds to complaints from our end users. Our customer hotline number and address are printed on the package of our pharmaceutical products and are also published on our website. Our customers and end-users can reach us through the customer hotline or by email should they have any complaints or queries in relation to our pharmaceutical products. We also post on our website the therapeutic effects of our pharmaceutical products. It is our policy that all complaints and requests from our customers and end-users shall be handled promptly upon receipt. We review all of our internal records regarding the said product upon receipt of the complaint and investigate whether the said product is defective. If the said product fails to reach our internal and national quality standards, we will promptly recall the said product that has been put into circulation, and make other remedial measures. During the Track Record Period, we did not have any material sales returns from our distributors or direct sales customers and had not experienced any material customer complaints, product recalls and product liabilities or other legal claims due to problems with the quality of our products.

Measures to Prevent and Monitor Counterfeiting of Products

We investigate counterfeit products in the market through our sales representatives to monitor any counterfeit products and infringement of our intellectual property and information provided by our distributors and end-users. During the Track Record Period and as of the Latest Practicable Date, we are not aware of any counterfeits of our pharmaceutical products in the PRC market.

RESEARCH AND DEVELOPMENT

We believe that research and development is critical in maintaining our competitive edge and advantages. We have established an effective research and development platform quickly developing and enhancing production techniques and cooperate with external medical and research institutions. We usually engage the external partners to take the leading role in executing the preclinical development projects. In line with the industry norm, all the clinical tests are outsourced to qualified contract research organizations.

In 2015, 2016 and 2017, our research and development expenses amounted to RMB0.2 million, RMB0.5 million and RMB3.2 million, respectively, representing approximately 0.1%, 0.1% and 0.7% of our revenues for the respective periods. Our research and development expenditures are primarily used for payment to our external partners and the compensation of our research and development staff and the procurement of raw materials. These expenditures are recognized as expenses in the period such expenses were incurred.

Our In-house Research and Development Center

As of December 31, 2017, our research and development department comprised a team of 21 dedicated members, including five staff members dedicated to research and development of new products, and 16 staff members mainly responsible for quality and technology management of our existing products. All of our staff in the research and development center for new products graduated from universities accredited by competent bodies and majored in areas in relation to medicine, pharmacy or food safety.

Our in-house research and development effort is focused on searching for and reviewing potential product candidates, deciding upon product candidates for development, and liaising with the CFDA regarding the approval and registration of newly developed drug products. Another primary focus of our research and development efforts is the improvement of production techniques. Our research and development team is also responsible for coordinating with our sales and marketing personnel and production department, processing market demand information for new products and customer feedback on existing products.

Through our internal research and development efforts, we constantly improve the production technique and enhance the quality standards of our products. For instance, we proposed the quality standard for Metformin Hydrochloride Sustained Release Tablets (鹽酸二甲雙胍緩釋片) in collaboration with a third party research partner, which were adopted by the CFDA as the quality standard in China in May 2008. As part of efforts to enhance the quality of our products, in addition to following the quality test in accordance the existing national quality standards, we petitioned to conform to a higher quality standard, and explored more efficient methods to determine and enhance the quality of the products, which was subsequently adopted by the CFDA as the quality standard in China in October 2014.

As recognition of our research and development capabilities, our research and development center was designated as the Henan Province Micro-encapsulation Technology Research Center (河南微囊化藥物工程技術研究中心) whose primary purpose is to re-evaluate and study measures to increase safety of PCM Injections including Shuanghuanglian Injections and Chaihu Injections (柴胡注射液) in 2012 and the Henan Province PCM Injection Safety Laboratory (中藥注射劑安全性研究河南省工程實驗室) whose primary purpose is to develop the micro-encapsulation of PCM and western medicines including Yuanhu Zhitong Oral Solutions (元胡止痛口服液), Compound Ferrous Sulfate Granules (複方硫酸亞鐵顆粒) and Ganweikang Tablets (肝維康片) in 2013. Henan Fusen, our principal operating subsidiary, was also recognized as a High New Technology Enterprise (高新技術企業). As of the Latest Practicable Date, we had obtained 16 patents in connection with our production techniques and packaging designs, six pending patent applications and nine software copyrights in connection with production process monitoring and testing.

Collaboration with External Partners

We have entered into collaboration agreements with external research institutions in the PRC to jointly carry out research and development of new pharmaceutical products and dietary supplement products as well as to enhance our own research and development capabilities. Our research partners include many prestigious research institutions in the PRC. Our joint research projects include the research and development of new pharmaceutical products and dietary supplement products that have not previously been developed internationally or domestically and improvement of production technique of existing pharmaceutical products and dietary supplement products.

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The terms of our collaboration agreements for research projects vary, depending on the subject and nature of the research and our commercial arrangements with our external partners. According to the technology development commission arrangements we entered into with our research partners, we usually engage the external partners to take the leading role in executing the preclinical development projects. Our research and development team may provide the necessary equipment and documentation to the external partner, and check the status of the projects. In addition, we liaise with the CFDA and assist the external partners, regarding the approval and registration of the developed products. We generally pay the relevant external partners fixed fees in return. In most cases, we are entitled to receive the full proceeds from the sales of these products as well as the intellectual property rights and other benefits resulting from the successful development and commercialization of the products.

In addition, we may directly purchase manufacturing technologies or rights in granted approvals of selected drugs from third-party pharmaceutical companies, which can significantly shorten our research and development cycle, and thus expand and diversify our current product portfolio and pipeline in timely response to the market. In accordance with such technology transfer agreements, the transferor of the technology will transfer all relevant prescription, production technology and quality standard to us and assist us to conduct successfully sample production and obtain relevant production permits within a certain period of time. We provide necessary equipment and documentation, prepare documents to be filed with the CFDA and liaise with the CFDA.

Historically, in collaboration with external partners, we have successfully obtained the production permits of eight pharmaceutical products including Metformin Hydrochloride Sustained Release Tablets (鹽酸二甲雙胍緩釋片), Clarithromycin Sustained Release Tablets (克拉黴素緩釋片), Yanning Capsules (炎寧膠囊) and Tongmai Oral Solutions (通脈口服液). We also purchased Qingre Jiedu Oral Solutions (清熱解毒口服液) and Xiao'er Kechuanling Oral Solutions (小兒咳喘靈口服液) and obtained their production permits in October 2016 and April 2017, respectively. We rolled out the production of Qingre Jiedu Oral Solutions and Xiao'er Kechuanling Oral Solutions in January 2017 and July 2017, respectively. We believe this demonstrates our strong research and development capabilities with respect to selected pharmaceutical products.

As of the Latest Practicable Date, in collaboration with our research partners, we are engaged in research and development projects including (i) development of products including Yinhua Lozenges (銀花含片) and Tiepi Shihu Tablets (鐵皮石斛片劑), all of which are expected to be launched in the following years, (ii) generic consistency evaluation of generic drugs including Flunarizine Hydrochloride Capsules (鹽酸氟桂利嗪膠囊), Metformin Hydrochloride Sustained Release Tablets (鹽酸二甲雙胍緩釋片) and Ranitidine Hydrochloride Capsules (鹽酸雷尼替丁膠囊) that are currently under production in accordance with requirements by regulations in the PRC which provides that the generic consistency evaluations have to be completed after the production permit is granted, (iii) the conversion of prescription drugs to OTC drugs including Yanning Capsules (炎寧膠囊), the process of which involve a conversion evaluation test that requires further research and development expenditure and (iv) exploratory research for preparing future application for the qualifications and certificate to produce Chinese medicine formula granules (中藥配方顆粒).

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COMPETITION

The PCM cold medicine market is highly competitive and fragmented. According to Frost & Sullivan Report, the top 10 manufacturers accounting for approximately 40.1% of the PCM cold medicine market in terms of wholesale sales in 2017. We compete directly with pharmaceutical products manufacturers producing the same type of products as ours and indirectly with those producing products with similar curative effects which can be used as substitutes to our pharmaceutical products. We also face competition when we expand into other markets, and when new competitors enter into our existing markets. Our competitors vary by product and, in certain cases, different competitors may have greater or lesser financial resources, marketing capabilities and/or market share by region in China than us. According to Frost & Sullivan Report, we compete with a number of foreign and domestic pharmaceutical manufacturers. According to the Frost & Sullivan Report, Fusen ranked eighth in the PCM cold medicine in China in terms of revenue in 2017, representing a market share of 2.9%. We are the second largest player in the Shuanghuanglian Oral Solutions market with a market share of 35.5%, while it dominates the Shuanghuanglian Injections market with a market share of 91.6%, in terms of revenue in 2017. See “Industry Overview” for further details.

EMPLOYEES

As of December 31, 2017, we employed a total of 1,018 employees that are classified as follows:

Function	Number of Employees	Percentage of Total Number of Employees (%)
Management	16	1.6
Production and procurement	594	58.3
Sales and marketing	257	25.2
Product development	21	2.1
Administration	60	5.9
Finance	31	3.0
Quality Control	39	3.8
Total	<u>1,018</u>	<u>100.0</u>

As of the Latest Practicable Date, except from our 257 sales representatives in the sales and marketing department stationed in our headquarters and 17 cities, all of our employees worked at our headquarters and production facilities in Xichuan County, Henan Province.

We believe our success depends heavily upon our employees’ provision of consistent, quality and reliable services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, we place a strong emphasis on training our employees. We provide training periodically and across operational functions, including introductory training for new employees, technical training and professional and management training. In respect of recruitment, we recruit new employees based on specific job requirements, our resources and needs from time to time.

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We enter into individual employment contracts with our employees to cover matters such as wages, employee benefits, safety and sanitary conditions in the workplace, and grounds for termination. Pursuant to regulations in each of the local governments where we operate, we make contributions to various employee benefit plans. Employee benefits covered by these arrangements include employee benefits required by PRC laws and regulations as well as incentives for increasing production quantity, accommodations, meals and travel allowances. The local government authorities have confirmed that contributions to these employee benefit plans have been made in a timely manner as required by applicable PRC regulations during the Track Record Period, and we were not subject to penalties or sanctions. As confirmed by the local government authorities, we have also made contributions to the housing funds for our employees on time except as disclosed in “License, Regulatory Approvals and Compliance Record — Payment of Housing Provident Fund”, and we are not imposed with penalties or sanctions in relation to the provision of employee housing subsidies and housing funds during the Track Record Period.

Our employees are not covered by any collective bargaining agreement. During the Track Record Period, we have not experienced any strikes or major disputes with our employees and we believe that we maintain a good working relationship with our employees.

INTELLECTUAL PROPERTY

We rely primarily on a combination of patents, copyrights, technologies and trade secrets, as well as third party confidentiality agreements to protect our intellectual property. As of the Latest Practicable Date, we registered a total of 16 patents in China, including three invention patents, three utility model patents and 10 exterior design patents, as well as seven pending invention patent applications in China. We also registered nine software copyrights in connection with production process monitoring and testing and one artwork copyrights. In addition, we had 53 registered trademarks in China, as well as four registered trademarks in Hong Kong.

We do not believe the expiration or loss of any of the current patents we own would materially harm our business. We do not know if our patent applications, applications for patent license or any such applications in the future will result in patents being issued with the scope of the claims we seek, if at all, or whether any patents we receive may be challenged, invalidated or declared unenforceable.

With respect to, among other things, proprietary know-how that is not patentable and processes for which patents are difficult to enforce, we rely on trade secret protection and confidentiality agreements to safeguard our interests. While we believe that certain elements in our operations are not covered by patents or copyrights, we have taken security measures to protect these elements.

We require our clients and business partners to enter into confidentiality agreements before we disclose any sensitive aspects of our operations, technology or business plans.

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In addition to protecting our own intellectual property rights, it is also essential to minimize the risk that any of our pharmaceutical products or production technologies may infringe the intellectual property rights of others. For each research and development projects, our research and development team members conduct patent searches to ensure that the subject matter of the project does not infringe others' intellectual property rights prior to the commencement of such project. However, despite such internal control procedures, the risk of infringing third party intellectual properties cannot be eliminated entirely. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — Litigation to protect our intellectual property rights or defend against third- party allegations of infringement may be costly" in this prospectus for more details.

As of the Latest Practicable Date, we had not been subject to any material intellectual property claims against us, and we had not experienced any infringements on our intellectual property rights.

INSURANCE

There are no national mandatory provisions under the relevant PRC laws and regulations requiring pharmaceutical manufacturers to maintain insurance coverage with respect to their pharmaceutical manufacturing operations. We currently maintain the following insurance policies: (i) the statutory insurance for our automobiles, (ii) the social welfare insurances for our employees as required under the PRC laws, and (iii) an insurance for our major assets.

We believe our practice is with industry norms. However, there are certain risks for which we are not insured, and we may not have sufficient insurance coverage for damages and liabilities that may arise in the course of our business operations. See "Risk Factors — Risks Relating to Our Business — Our insurance coverage may not completely cover the risks related to our business and operations" for further details.

PROPERTIES

We occupy certain properties in China in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They mainly include premises for our production facilities, laboratories, warehouses, offices, and employee dormitories.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance which require a valuation report with respect to all our interests in land or buildings, for the reason that, as of December 31, 2017, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets.

Owned Properties

As of the Latest Practicable Date, we had land use right certificates for two parcels of land with an aggregate site area of approximately 175,993 sq.m. and building ownership certificates for 23 properties with an aggregate gross floor area of approximately 66,586 sq.m. We have obtained all the construction permits for all our buildings and structures and we have obtained building ownership certificates for all of our buildings. As confirmed by our PRC Legal Adviser, we legally own all of our buildings.

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The following table sets out a summary of the all land use rights owned by us as of the Latest Practicable Date.

<u>Location</u>	<u>Use of Property</u>	<u>Registered area</u> (<i>sq.m.</i>)	<u>Expiration of land use right</u>
Xichuan County, Henan Province	Industrial	19,988	March 8, 2060
Xichuan County, Henan Province	Industrial	156,005	July 27, 2056

The following table sets out a summary of the properties owned by us as of the Latest Practicable Date.

<u>Location</u>	<u>Use of Property</u>	<u>Gross Floor Area</u> (<i>sq.m.</i>)
Xichuan County, Henan Province	Production	44
Xichuan County, Henan Province	Production	3,911
Xichuan County, Henan Province	Production	427
Xichuan County, Henan Province	Production	672
Xichuan County, Henan Province	Production	10,940
Xichuan County, Henan Province	Production	235
Xichuan County, Henan Province	Production	1,970
Xichuan County, Henan Province	Production	4,596
Xichuan County, Henan Province	Production	5,851
Xichuan County, Henan Province	Production	958
Xichuan County, Henan Province	Production	2,802
Xichuan County, Henan Province	Production	3,588
Xichuan County, Henan Province	Production	2,656
Xichuan County, Henan Province	Quality Control	814
Xichuan County, Henan Province	Quality Control	303
Xichuan County, Henan Province	Warehousing	2,326
Xichuan County, Henan Province	Warehousing	1,948
Xichuan County, Henan Province	Warehousing	1,948
Xichuan County, Henan Province	Administration	1,784
Xichuan County, Henan Province	Administration	13,837
Xichuan County, Henan Province	Administration	1,388
Xichuan County, Henan Province	Administration	2,278
Xichuan County, Henan Province	Administration	1,309

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Leased Properties

As of the Latest Practicable Date, we leased a parcel of land in Xichuan County, Henan Province with a site area of approximately 45,312 sq.m. and production facilities and warehouses on the parcel of land with an aggregate gross floor area of 4,005 sq.m. from Nanyang Fusen, a connected person for our packaging operation. See the section headed “Connected Transactions — Exempt Continuing Connected Transaction — Tenancy Agreement with Nanyang Fusen”.

As of the Latest Practicable Date, we leased production facilities in Xichuan County, Henan Province with an aggregate gross floor area of approximately 4,032 sq.m. from Great Health, a connected person for our pharmaceutical manufacturing operation. See the section headed “Connected Transactions — Exempt Continuing Connected Transaction — Tenancy Agreement with Great Health”.

As of the Latest Practicable Date, we leased six properties from third parties with an aggregate gross floor area of approximately 618 sq.m. as dormitories for our sales representatives in cities they are stationed.

Our PRC Legal Adviser has confirmed that the landlords are entitled to lease these spaces and we are using the leased property in accordance with the permitted usages under the relevant lease agreements. We have duly registered and filed these lease agreements with relevant land and real estate administration bureau in the PRC.

None of the properties held by us has any material encumbrances, environmental issues, litigation, breaches or defects.

ENVIRONMENTAL, HEALTH AND SAFETY MATTERS

We are subject to PRC environmental laws and regulations including the Environmental Protection Law of the PRC. The main pollutants generated during our production process include waste water, waste gas, dust, noise and solid waste. We have established a pollution control system with dedicated personnel that are well-versed with the regulatory requirements applicable to our operation to inspect the production facilities and maintain environment protection equipment and facilities. We installed various types of pollution control equipments in our facilities to reduce and treat the waste generated in our production process. When we plan for new products or new projects, we take into consideration the potential impacts on the environment. For the years ended December 31, 2015, 2016 and 2017, we incurred cost of RMB1.2 million, RMB0.5 million and RMB1.0 million, respectively, to comply with relevant environmental protection laws, rules and regulations which comprised sewage treatment fees, amounts paid to purchase environmental protection equipment and costs of environment assessment studies.

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Our PRC Legal Adviser have opined that except as disclosed in “License, Regulatory Approvals and Compliance Record — Environmental Protection Approval” we are in compliance with relevant national or local environmental laws and regulations in the PRC in all material aspects except for the administrative penalty disclosed. Our facilities in the PRC 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. 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 except as disclosed in “— License, Regulatory Approvals and Compliance Record — Environmental Protection Approval”. As the PRC legal system continues to evolve, 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.

The PRC government imposes a number of regulatory requirements on pharmaceutical companies with regard to employee health and safety. We regard occupational health and safety as one of our important social responsibilities and have implemented safety guidelines at our production facilities, to which all employees are required to strictly adhere. We also conduct regular work place safety training and exams for our employees including those in relation to accident prevention and management and have dedicated personnel that are well-versed with the regulatory requirements applicable to our operation to monitor different stages of the production process to ensure work place safety and prevent and manage accidents, if any. We have established a comprehensive safety warning and emergency processing system to minimize the risk of injury at our production facilities, warehouses and laboratories. Our production process is in compliance with GMP standards. During the Track Record Period, we have complied with all relevant national or local occupational health and safety laws and regulations and there were no major accidents that resulted in the death or serious injury of our employees.

We have complied with the relevant production safety and environmental protection laws or regulations in the past and our production facilities comply with laws and regulations applicable to pharmaceutical manufacturers in the PRC, including GMP certification requirements and requirements governing the construction and expansion of our manufacturing plants and facilities except as disclosed in “— License, Regulatory Approvals and Compliance Record — Environmental Protection Approval”. There is no assurance, however, that we will not be subject to environmental liabilities in the event of an accident or other unexpected event, in which case we may be responsible for substantial cleanup costs. If we do not have adequate insurance coverage to cover such losses, our financial condition and results of operations may be materially adversely affected. See the section headed “Risk Factors — Risks Relating to Our Business — Our insurance coverage may not completely cover the risks related to our business and operations” in this prospectus.

LEGAL PROCEEDINGS

We are currently not a party to, and we are not aware of any threat of, any legal, arbitral or administrative proceedings, which, in our opinion, is likely to have a material and adverse effect on our business, financial conditions or results of operations. We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

LICENSE, REGULATORY APPROVALS AND COMPLIANCE RECORD

Permits, Licenses and Approvals

As a developer and manufacturer of pharmaceutical products, we are subject to regulation and oversight by different levels of the food and drug administration in the PRC, in particular, the CFDA. We are also subject to other PRC laws and regulations that are applicable to manufacturers and distributors in general. A summary of the relevant PRC laws and regulations which our business operations are subject to in the PRC is set out in the section headed “Regulations” to this prospectus. Our Directors, as advised by our PRC Legal Adviser, confirm that as of the Latest Practicable Date, except as disclosed below we had complied with all relevant PRC laws and regulations in all material respects and have obtained all material licenses, approvals and permits from relevant regulatory authorities for our operations in China.

Anti-Corruption Compliance

Since the early 1990s, the PRC government has issued various laws and regulations with respect to commercial bribery. In 1993, the National People’s Congress adopted the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), which became effective on December 1, 1993 and provided that a business operator would be illegal if it offered money or any other bribes in the course of selling or purchasing products, shall be investigated in accordance with the Criminal Law of the PRC (《中華人民共和國刑法》) which became effective on October 1, 1997. On November 15, 1996, the SAIC issued the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》), which provided that the act of commercial bribery included offering money, goods, all kinds of free tours, and unrecorded volume discount and sales commission in secret to any person when selling or buying products. Violations to such regulations by a business operator are subject to fines in an amount ranging from RMB10,000 to RMB200,000 and confiscation of illegal gains. In addition, any offer of property to any government officials for the purpose of seeking illegitimate gain or interest is illegal and might be becomes punishable by the relevant PRC governmental authorities.

Pursuant to the Provisions on the Establishment of Adverse Records of Commercial Briberies in the Medicine Purchase and Sales Industry (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》) enforced on March 1, 2014 by the NHFPC, Medical production and operation enterprises involved in criminal, investigation or administrative procedure for commercial bribery shall be listed in the Adverse Records of Commercial Briberies by provincial health and family planning administrative department.

For the avoidance of any violation to the aforesaid anti-corruption requirements by our employees, we have taken measures to regulate the conduct of our sales representatives and tighten our sales and finance management system. These measures include:

- undertaking regular inspection on sales and finance matters,
- closely monitoring the marketing activities of our sales representatives,
- establishing internal policies for approving reimbursement of marketing, entertainment, traveling and accommodation expenses incurred by our sales representatives, and

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- providing training to our sales representatives on our internal guidelines on expenditures and reimbursement and to increase their awareness of relevant anti-corruption laws and regulations, as well as bribery-related acts.

To prevent our distributors and sub-distributors from engaging in corruption, bribery, or other improper conduct, we take into account the compliance history of the distributors and sub-distributors during our distributor selection process. In addition, our distributors and sub-distributors are required under their agreements with us to comply with all applicable laws and regulations and restrain from inappropriate conduct and shall compensate us for any damages to our image or reputation as a result of their illegal or inappropriate conducts, while our sales representatives are also responsible for emphasizing to our distributors and sub-distributors our anti-corruption policy and overseeing their activities through routine follow-ups. Our Directors are of the view that such controls and measures are adequate to avoid the occurrence of corruption, bribery, or other improper conducts of our employees, distributors and sub-distributors.

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

Bills Financing

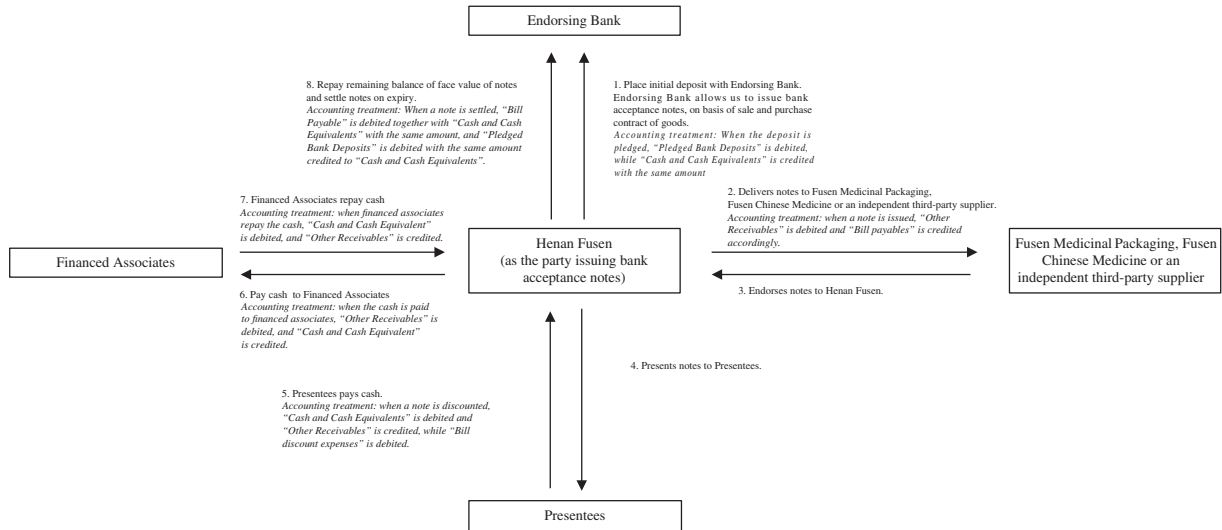
Background

Historically, Henan Fusen served as a primary funding vehicle for the Affiliates to leverage its stronger credit standing. In 2015, we had credit arrangements with certain domestic municipal, provincial and national commercial banks in the PRC (collectively, the “**Endorsing Banks**”). Pursuant to the credit arrangements, the Endorsing Banks agreed to provide credit within stipulated limits with one-year term. Within the stipulated credit limits with the Endorsing Banks, the credit was available to us in the form of loans as well as the issuance of bank acceptance notes by us. Considering the background of macro-economic restrictions, we believed that such activities were prevalent at the relevant times.

These bank acceptance notes were issued as payments for our purchases of goods, on the basis of us making initial deposits with the Endorsing Banks, in varying amounts based on the face amount of the bank acceptance notes to be issued by us. The bank acceptance notes were then transferred to the respective suppliers in the underlying contracts, namely, Fushan Medicinal Packaging, a subsidiary of us, Fusen Chinese Medicine, our connected person, or another independent third party supplier, who in turn endorsed the bank acceptance notes back to us. At any time prior to the maturity date, the bank acceptance notes could be presented by us to other commercial banks in the PRC or to other independent third-parties (collectively, the “**Presentees**”) for discounting or settlement of obligation, as applicable. We would obtain an amount equal to the face amount of the bank acceptance notes, deducting discounting charges or other service charges. These proceeds were then remitted to the Financed Affiliates. We were required to repay the face value of the issued bank acceptance notes to the Endorsing Banks for settlement on or before the maturity of the relevant bank acceptance notes.

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The diagram below illustrates the details of flow of the bank acceptance notes and our relevant accounting treatment at each step:



Excess Bill Financing and the Effect on our Financial Position

In order to obtain sufficient financing (within the credit limits stipulated by the Endorsing Banks and supported by the initial deposits made) to fund the Financed Affiliates, a same sales and purchase contract was used as the basis to issue acceptance notes with more than one Endorsing Banks, and therefore the aggregate face amount of the acceptance notes based on one sales and purchase contract was greater than the actual transaction amounts.

Set forth below illustrates certain major data related to the Excess Bill Financing:

	Year Ended December 31, 2015
	<u>561,000</u>
	<i>(in RMB thousands)</i>
Funds obtained from bank bills under financing arrangement	561,000
Aggregate amount of underlying transactions	93,627
Excess Bill Financing	467,373

In October 2013, we were advised, as confirmed by our PRC Legal Advisers subsequently in April 2014, that the Excess Bill Financing was not in strict compliance with the Negotiable Instruments Law of the PRC (《中華人民共和國票據法》), in particular, Article 10 which states that a bank acceptance note shall constitute a real transaction relationship and reflect the credit-debit relationship and certain banking regulations promulgated by the PBOC, including the Measures for the Implementation of Administration of Negotiable Instruments (《票據管理實施辦法》), the Measures for Payment and Settlement (《支付結算辦法》) and the Notice of the People's Bank of China on Relevant Issues concerning the Improvement of Negotiable Instruments System (《中國人民銀行關於完善票據業務制度有關問題的通知》).

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Upon receipt of such advice, our Directors understood that the Excess Bill Financing activities constituted a breach of the relevant PRC laws and regulations and began to devise an alternative financing plan for the Financed Affiliates, gradually phase out the Excess Bill Financing arrangement and strengthen our internal control.

We ceased the Excess Bill Financing as of June 17, 2015. All the relevant bank acceptance bills have been fully settled on December 15, 2015. Our bills payables of RMB20.0 million as of December 31, 2015 represents regular use of bank acceptance notes in amount that matches the underlying contracts. Such amount was repaid in 2016.

As such Excessive Bill Financing activities did not have any negative impact on our operating results or cash flow in 2015, our Directors are of the view that cessation of such Excess Bill Financing will not affect our future financial results and performance or operation. There was no negative impact on our operating results or cash flow as a result of the cessation Excess Bill Financing because (i) the purpose of the Excess Bill Financing is to fund the operation of the Financed Affiliates instead of our own operations as evidenced by the steady increase of our net operating cash inflow and relatively low funding needs during the Track Record Period, and we did not recognize any revenue beyond the actual sales; (ii) as demonstrated by our operating results and cash flow in 2016 and 2017, two full financial years after we ceased Excess Bill Financing, we were able to carry out operations and maintain a healthy liquidity position without the Excess Bill Financing activities; (iii) the Excess Bill Financing made our operations less profitable, as demonstrated by (x) our higher finance costs in 2015 as compared with 2016, and (y) the significant growth in our net profit from RMB46.0 million in 2015 to RMB96.2 million in 2016, a full financial year after we ceased Excess Bill Financing; and (iv) as we intend to cease serving as a funding vehicle for the Affiliates upon Listing, we will not have similar level of financing needs from the relevant banks going forward.

Confirmations from the Relevant Regulators, Endorsing Banks and our Directors

The PBOC is the regulatory body for promulgating decrees and rules that related to its responsibilities. Our PRC Legal Advisers have advised us that, according to the provisions under the PRC Negotiable Instruments Law, the Measures for the Implementation of Administration of Negotiable Instrument, the Measures for Payment and Settlement and the Notice of the People's Bank of China on Relevant Issues concerning the Improvement of Negotiable Instruments System (《中國人民銀行關於完善票據業務制度有關問題的通知》), the PBOC is the authority responsible for monitoring bill financing transactions in the PRC. Since our subsidiary that issued the bank acceptance notes was incorporated in Nanyang city, the Nanyang Branch of the PBOC is the appropriate government agency to consult regarding our Excess Bill Financing. However, there is no express provision in the relevant laws, rules and regulations which impose administrative or criminal liability for non-compliant bill financing transactions.

The CBRC is the regulatory body responsible for the supervision and regulation of banking institutes of the PRC and it is empowered to impose penalties on banking institutes which are in breach of relevant laws and regulations. Since our subsidiary that issued the bank acceptance notes was incorporated in Nanyang city, the Nanyang Office of the CBRC is the appropriate government agency to consult regarding this matter.

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As advised by our PRC Legal Advisers, the Central Nanyang Branch of the PBOC and the Nanyang Office of the CBRC are the competent and appropriate government authorities to issue the relevant confirmation with regard to the Excess Bill Financing.

We received written confirmation from the Central Nanyang branch of the PBOC, and the Nanyang Office of the CBRC, no administrative penalty have been imposed on or taken against the parties involved in the Excess Bill Financing. Nanyang Office of the CBRC further confirmed that no administrative penalty or any other measures will be imposed on or taken against us and our Directors, executive officers and employees involved in the Excess Bill Financing. As such, our PRC Legal Advisers have advised us that the possibility of any administrative or criminal liability will be imposed on us in connection with the Excess Bill Financing is remote.

As of the Latest Practicable Date, we have not received any notice of formal investigation or inquiry regarding the Excess Bill Financing from these government agencies.

The Endorsing Banks confirmed that in connection with our business activities with them in 2015, (i) all the Excess Bill Financing has been fully settled on time; (ii) they will not take any legal action against us, our shareholders, Directors and senior management in connection with the Excess Bill Financing; and (iii) such Excess Bill Financing will not affect any future credit facilities granted to us.

To the best of their knowledge, our Directors confirm that the parties involved in the Excess Bill Financing understood that the procurement amounts contemplated in the sales and purchase contracts under such Excess Bill Financing transactions were greater than the actual transaction amounts, and such Excess Bill Financing transactions did not involve any fraudulent activities with the intention to defraud any party or to deceive for any money.

Opinion from our PRC Legal Adviser

We have sought legal advice from our PRC Legal Adviser for the assessment of the potential legal implications of such Excess Bill Financing for us, our Directors and senior management.

Our PRC Legal Adviser is of the view that the Excess Bill Financing does not constitute criminal fraudulent activities stipulated under relevant PRC criminal laws, on the basis that (i) the bank acceptance notes issued by us in connection with the Excess Bill Financing were not conducted with the intention of illegal possession, (ii) we paid all amounts due to the Endorsing Banks in full and on time, and (iii) all bank acceptance notes involved in the Excess Bill Financing were fully settled by December 2015; despite that such Excess Bill Financing was not in compliance with Article 10 of the Negotiable Instruments law of the PRC which requires that the issuance of a bank acceptance note shall constitute a real transaction relationship and reflect the credit-debit relationship. Our PRC Legal Advisers have further advised that, apart from issuance of bank acceptance note in excess of the underlying transaction amount, there was no other illegal or non-compliant activities involved in the Excess Bill Financing practice.

In addition, our PRC Legal Adviser has advised us that there are no specific provisions in the Negotiable Instruments Law of the PRC, nor are there any express rules promulgated by the PBOC or the CBRC imposing definitive administrative penalties on enterprises in respect of such Excess Bill

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Financing. In addition, pursuant to the confirmation from Nanyang Branch of PBOC and the Nanyang Office of the CBRC, no administrative penalty or any other measures would be imposed or taken against the parties involved.

Our PRC Legal Advisers has advised us that the possibility of we will have any liability to the Endorsing Banks under any civil claims arising from such Excess Bill Financing, and our Directors and senior management be personally liable for any civil claims from the Endorsing Banks is remote.

Strengthening our Internal Control Measures

Upon receipt of advice that the Excess Bill Financing practice is not in strict compliance with the PRC laws, we began to strengthen our internal controls and pilot our policies and guidelines to prevent the recurrence of such non-compliance incident.

- We enhanced our internal guidelines and policies, and subsequently based on Protiviti's recommendation for approving, reporting and monitoring all financing transactions, we required Directors and senior management to review, check and verify all financial transactions before approving any financing transactions. The officer responsible for the internal controls and management of our financing activities is the Chief Financial Officer. Please refer to "Directors and Senior Management" for details of his experiences and qualifications;
- In June 2015, we notified all our employees and management involved in finance and audit functions that such Excess Bill Financing activities are strictly prohibited and that no one is allowed to approve such transactions and have implemented a policy that employees and management entering into or approving Excess Bill Financing in violation of the prohibition will be subject to various disciplinary actions, including financial and legal responsibilities;
- Established the Audit Committee (which was approved pursuant to our Directors' resolution dated June 14, 2018) comprising our three independent non-executive Directors to review and supervise our internal control systems;
- Engaged Protiviti from September 2016 to November 2017 to assess our bill financing activities with a scope of work covering the period from January 2012 to September 2017;
- Our Directors and senior management attended training on the relevant PRC regulations on bill financing in November 2016, which was provided by our PRC Legal Advisers. We conducted, and will also conduct, regular internal training to our employees and management on our compliance policy and engage external professionals, including our Hong Kong Legal Advisers and PRC Legal Advisers, to conduct training on our ongoing compliance and obligations under the Listing Rules and all other Hong Kong and PRC regulations regularly to ensure awareness and compliance of the policies;
- Engaged Dakin Capital as our compliance advisor upon Listing to advise us on compliance matters in accordance with Rule 3A.19 of the Listing Rules and to conduct periodic reviews and assessments of our internal control measures and report to the board of Directors and the Audit Committee the results of its reviews and assessments.

BUSINESS

For the purpose of assessment of the effectiveness of our internal controls associated with Excess Bill Financing, we engaged Protiviti, an independent global business risk consulting and internal audit firm to further identify deficiencies, if any, in our internal control system and to furnish recommendation, if any, on enhanced internal control measures established by us to prevent future violations and ensure on-going compliance with applicable laws and regulations. Pursuant to the terms of the engagement, Protiviti would perform testing for the implementation status of such enhanced internal control measures and prepare a written report in this regard.

Based on the review performed by Protiviti on our bill financing activities with a scope of work covering the period from January 2012 to September 2017, the abovementioned remedial measures had been properly implemented and no further deficiencies in connection with the enhanced internal control measures have been identified during the reviewed period. Protiviti is of the view, and the Sole Sponsor concurs, that the abovementioned remedial measures, if implemented on a continuous basis, are effective and adequate in reasonably preventing the occurrence of unauthorized Exceed Bill Financing in future.

Considering that the Excess Bill Financing has never occurred after June 2015 and the result of review by Protiviti, our Directors are of the view that such measures will effectively prevent the occurrence of Excess Bill Financing activities in the future.

We will engage Protiviti for at least 12 months after Listing to conduct periodic review and assessment of our internal control measures, report the results of such assessment to our Directors and the Audit Committee and propose additional measures for improvement (if any). We will also disclose in our first annual report after Listing whether there are any further Excessive Bill Financing activities identified by our Directors, senior management, Audit Committee, compliance advisor and/or independent consulting firm.

Involvement of our Director

The Excess Bill Financing were approved by Mr. Cao Changcheng, our Director and Controlling Shareholder. Mr. Cao confirmed that he was unaware that Excess Bill Financing was not in strict compliance with relevant PRC laws and regulations when such arrangement was initiated.

Our Directors (save for Mr. Cao) and the Sole Sponsor, based on the due diligence which it has conducted, are of the view that the Excess Bill Financing does not affect Mr. Cao's character, experience and integrity pursuant to the requirements of rule 3.08 and rule 3.09 of the Listing Rules on the following bases: (i) the advice of our PRC Legal Advisers that no fraudulent activities were involved in obtaining the Excess Bill Financing and our historical Excess Bill Financing practice did not constitute fraud under the Negotiable Instruments Law of the PRC; (ii) all the outstanding balance and fee due in relation to the Excess Bill Financing had been duly repaid; (iii) the confirmation from the Nanyang Office of the CBRC that no administrative punishment or any other measures would be imposed on or taken against the relevant parties in connection with the Excess Bill Financing; (iv) Mr. Cao needed time to finalize an alternative financing arrangement for the Affiliates before the Excess Bill Financing practice can be fully ceased. As an entrepreneur, Mr. Cao bears a responsibility to the various stakeholders of the Affiliates, including their respective employees and suppliers, and there was no way Mr. Cao could fulfill such social responsibility if the Excess Bill Financing practice was to stop without an alternative financing plan for the Affiliates; (v) as at the Latest Practicable Date, to the best of our knowledge having made reasonable enquiry, there were no legal proceedings against Mr. Cao in the PRC and Hong Kong in connection with the Excess Bill Financing; and (vi) the confirmation from Mr. Cao

that he was unaware that Excess Bill Financing was not in strict compliance with relevant PRC laws and regulations when such arrangement was initiated, and the undertaking by Mr. Cao that he will attend training courses regarding relevant laws and regulations to be conducted by professional training providers accredited by the relevant professional bodies in the areas of financial management, corporate governance and the Listing Rules during each of the two years after the Listing.

Environmental Protection Approval

In March 2016, we were fined RMB100,000 by the local environmental protection authority for failure to obtain the necessary environmental protection approval before the commencement of the upgrading of three oral solution production lines due to administrative oversight. In June 2016, we paid the RMB100,000 fine. In August 2016, we obtained the necessary environmental protection approval and resume the upgrading work for the three production lines. Considering our revenue of RMB442.0 million in 2016 and our total assets of RMB1,151.1 million as of December 31, 2016, we do not consider the fine and the rectified non-compliance incidents to have a material impact on our results of operations and financial condition. Nor do we consider this isolated incident to be systemic.

As we have duly paid the fine and obtained the necessary environmental protection approval, we were advised by our PRC Legal Adviser that the PRC government will not take further action and there will be no more legal consequences from this historical non-compliance incident.

To prevent recurrence of non-compliance incidents of similar nature, we will ensure the timely completion of the environmental assessment studies, the progress of implementation of various environmental protection measures as required by PRC laws and regulations and engage independent third parties to prepare the verification reports prior to the commencement of operation at all of our production facilities in the future. The progress of these measures will be reported to Ms. Meng Qingfen, our Executive Director.

Payment of Housing Provident Funds

In 2015 and 2016, we failed to pay the housing provident funds for our employees in accordance with the law.

Reasons for Non-compliance

As it is not convenient for most of our employees to contribute to and withdraw the housing provident funds under current laws and regulations, they are not willing to cooperate in opening housing provident funds account and making relevant housing provident funds contribution. As a result, we did not open such account and failed to make proper contribution to the housing provident funds. Our head of Human Resources department who was in charge of the administration of our employee social insurance contribution, lacked experience and did not fully understand the relevant requirements of the relevant PRC laws and regulations.

Legal Consequences and Rectification Measures

Pursuant to the Regulation Concerning the Administration of Housing Fund (《住房公積金管理條例》), if an employer fails to pay or underpay housing provident fund contributions when they fall due, the administration for housing provident fund shall order it to pay the outstanding amount within a time limit. If the employer fails to pay within such time limit, application may be made to the People's Court to enforce payment for the outstanding amount.

We have obtained the confirmations from the relevant local housing provident fund authorities who, according to our PRC Legal Adviser, is a competent authority stating that no administrative penalty has been imposed. The relevant authorities confirmed that our PRC incorporated subsidiaries had applied for the housing provident fund registration in compliance with the applicable laws and regulations and that the previous payments made by such subsidiaries were in line with the local guidance and practices since we completed the housing provident fund registration and opened the housing provident fund accounts. The relevant authorities further confirmed that they would not demand for payment of outstanding housing provident fund contributions, nor would they impose any administrative penalty or any other measures on or taken against us.

Furthermore, as of the Latest Practicable Date, we had not received any notification from the relevant PRC authorities alleging that we had not fully contributed to the housing provident fund and demanding payment of the same before a stipulated deadline. We were also not aware of any employee's complaints or demands for payment of housing provident fund contributions, nor had we received any legal documentation from the labor arbitration tribunals or the PRC courts regarding disputes of housing provident fund contributions.

Based on the above reasons, our PRC Legal Adviser is of the view that the possibility of the relevant PRC authorities imposing any administrative penalties or fines is remote.

Nevertheless, we have made provision for the unpaid housing provident fund contributions of approximately RMB2.1 million and RMB2.1 million for each of 2015 and 2016, respectively. In the event that we receive requests from the relevant authorities, we intend to immediately pay the outstanding housing provident funds accordingly. As we have made adequate provision, we believe such payment will not have any material financial impact on us.

Starting in 2017, we began to make payment for the housing provident fund in accordance with relevant laws and regulations.

In order to enhance our corporate governance and to prevent future potential non-compliance incidents, we have assigned designated personnel to monitor the status of payments of social insurance premiums and provident fund on a monthly basis in order to ensure that we have made these payments in full for our employees on time in accordance with the applicable laws and regulations. Written records with respect to the payment status for the social insurance premiums and housing provident fund are properly prepared, maintained and reviewed by the designated personnel on a monthly basis. The designated personnel include the managers of finance department, administrative department and the office of general manager.

BUSINESS

In addition, we engaged our PRC Legal Adviser to provide trainings to our employees in our human resources department on the latest development of various compliance matters and requirements in November 2016. To ensure future compliance, our head of Human Resources department will report to Mr. Fu Jiancheng, our vice president in relation to housing provident fund matters.

Having considered the nature and reasons for the systemic non-compliance incidents, the advice from our PRC Legal Adviser, the corrective actions taken and the internal control measures adopted by us, our Directors are satisfied, and the Sponsor concurs, that (i) our enhanced internal control measures are adequate and effective having regard to the obligations of us and our Directors under the Listing Rules and other relevant legal and regulatory requirements; and (ii) the past systemic non-compliance incidents would not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules or our suitability for listing under Rule 8.04 of the Listing Rules on the following basis:

1. the occurrence of the systemic non-compliance incidents was not due to the dishonesty, gross negligence or recklessness of our Directors nor for illegitimate purposes;
2. none of the systemic non-compliances has any material impact on our business operations and financial position;
3. since the implementation of the enhanced internal control measures and up to the Latest Practicable Date, our Directors confirmed that we had not had any material breach of rules and regulations other than the non-compliance incidents as disclosed above; and
4. our Directors are aware of the requirements and obligations as directors of a listed issuer pursuant to the Listing Rules and have undertaken to observe and comply with all the relevant rules and regulations.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately following completion of the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is not exercised), each of Full Bliss, Rayford and One Victory will, respectively, hold 22.52%, 22.52% and 15.86% of the issued share capital of our Company. Full Bliss is wholly-owned by Mr. Cao Changcheng.

Rayford is a wholly-owned subsidiary of Vistra Trust (Labuan) Limited which is a trustee of the Fusen Trust (the “**Trustee**”). The entire shareholding of Rayford formed the trust fund under the Fusen Trust which was held by the Trustee on trust for the benefit of 47 employees of our Group as the beneficiaries under the Fusen Trust as at the Latest Practicable Date. Pursuant to the investment management agreement dated December 14, 2016 entered into between Mr. Cao Changcheng, Mr. Cao Dudu and the Trustee, Mr. Cao Changcheng has been appointed as the investment manager of the Fusen Trust who is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford and direct the Trustee to vote at general meeting of our Company accordingly.

One Victory is wholly-owned by Mr. Cao Dudu, whereby Mr. Cao Changcheng is entitled to exercise the voting rights attaching to the Shares owned by One Victory at his sole discretion.

As such, each of Rayford, One Victory and Mr. Cao Dudu is not regarded as a Controlling Shareholder of our Company, since each of Rayford, One Victory and Mr. Cao Dudu will not be entitled to exercise or control the exercise of 30% or more of the shareholding of our Company after Listing and Mr. Cao Dudu, aged over 18, is not a close associate of Mr. Cao Changcheng under the Listing Rules. For the purpose of the Listing Rules, Mr. Cao Changcheng and Full Bliss are a group of Controlling Shareholders who are in a position to control 60.9% of the voting rights of our Company upon completion of the Capitalization Issue and the Global offering (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option). As at the Latest Practicable Date, Full Bliss did not commence any substantive business activities. Each of Full Bliss and Mr. Cao Changcheng confirms that he or it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that our Group is capable of carrying on our Group’s business independently from our Controlling Shareholders and their close associates after the Global Offering and the Capitalization Issue.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Henan Fusen, our principal operating subsidiary, historically served as a funding vehicle for the Affiliates and made a substantial amount of loans to the Affiliates. As of December 31, 2015, 2016 and 2017, outstanding balance to these Affiliates amounted to RMB765.6 million, RMB152.1 million and RMB12.5 million. Furthermore, as of December 31, 2015, 2016 and 2017, our Group had certain amount due from related parties. Details of these loan transactions are set out in the section headed “Financial Information — Material Related Parties Transactions” in this prospectus and note 29 to the Accountants’ Report set out in Appendix I to this prospectus. As at the Latest Practicable Date, RMB8.5 million of these outstanding loans remained outstanding and was subsequently settled on January 26, 2018. Henan Fusen will not serve as the funding vehicles for the Affiliates in the future.

During the Track Record Period, Mr. Cao Changcheng, our Controlling Shareholder, had provided personal guarantees in respect of certain bank borrowings of our Group. Please refer to note 24 of the Accountants’ Report in Appendix I to this prospectus for further details. Our Directors confirm that such personal guarantees provided by Mr. Cao Changcheng will be released upon the Listing, based on various confirmation letters issued by the banks concerned.

During the Track Record Period, our Company was indebted to Mr. Cao Dudu, our executive Director and the chief executive officer of our Company. Our Directors confirm that such debt owed to Mr. Cao Dudu was initially made due to administrative convenience and has been fully settled.

In view of the above, our Group is able to operate its business independently, and has adequate internal resources and a strong credit profile to support its daily operations.

Management independence

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group’s business. Our Board’s main function includes the approval of the overall business plans and strategies of our Group, monitoring the implementation of these policies and strategies and the management of our Company. Our Group has an independent management team, which is led by a team of senior management with substantial experience and expertise in our business management, to implement our Group’s policies and strategies.

Our Board consists of nine Directors, comprising five executive Directors, namely Mr. Cao Changcheng, Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen and Mr. Cao Dudu, one non-executive Director, namely Mr. Wang Jianhang, and three independent non-executive Directors, namely Mr. Sze Wing Chun, Mr. Shang Lei and Mr. Ho Ka Chun. Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant meeting of our Board in respect of such transactions and shall not be counted in the quorum. Our Directors are of the view that the Board is capable of managing our Group’s business independently from the Controlling Shareholders.

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Operational independence

Our Group has established its own organizational structure made of individual departments, each with specific areas of responsibilities. We have a clear business delineation with our Controlling Shareholders and as at the Latest Practicable Date, our Group did not share any operational resources, such as sales and marketing and general administration resources with our Controlling Shareholders and their respective close associates. During the Track Record Period, we had entered into certain related party transactions, details of which are set out in note 29(a) to the Accountants' Report set out in Appendix I to this prospectus. We will continue to enter into certain connected transactions with the close associates of Mr. Cao Changcheng after Listing, details of which are set out in the section headed "Connected Transactions" in this prospectus.

Save as disclosed above, our Directors confirm that our Group did not enter into any transaction with our Controlling Shareholders and/or their associates during the Track Record Period.

Our relationship with Fusen Chinese Medicine

Fusen Chinese Medicine was indirectly owned as to 50% by Mr. Cao Changcheng, an executive Director, the Chairman and one of our Controlling Shareholders and hence a connected person of our Company. For the years ended December 31, 2015, 2016 and 2017, we purchased medicinal herbs of approximately RMB5.9 million, RMB26.9 million and RMB23.8 million from Fusen Chinese Medicine, accounting for approximately 3.9%, 15.4% and 13.9% of our total purchases during the corresponding periods, respectively. Fusen Chinese Medicine was our fourth largest, second largest and second largest supplier of our Group for the years ended December 31, 2015, 2016 and 2017. Our Directors consider that it would be beneficial to our Group to continue purchasing medicinal herbs from Fusen Chinese Medicine after Listing for the following reasons:

- *Our mutual and complementary business relationship with Fusen Chinese Medicine:* Fusen Chinese Medicine is engaged in both wholesale and retail sale of medicinal herbs. For the years ended December 31, 2015, 2016 and 2017, our Group was the only wholesale customer of Fusen Chinese Medicine and the medicinal herbs were sold for manufacturing of pharmaceutical products. On the other hand, Fusen Chinese Medicine has national retail operations and its retail customers purchase the medicinal herbs for direct consumption as drinks. Taking account of our market position as the leading Shuanghuanglian-based cold medicine brand in China, our constant demand for high quality medicinal herbs from reliable source and our position as Fusen Chinese Medicine's key customer, we believe we have a mutual and complementary business relationship with Chinese Fusen Medicine.
- *Quality of the materials:* We recognise the importance of having quality materials used in our production process and carefully select suppliers which can meet our selection criteria, including without limitation, their quality of *Ionicera japonica*, which is one of the major raw materials of our Shuanghuanglian-based cold medicine products. We purchase *Ionicera japonica* from Fusen Chinese Medicine principally because it has demonstrated a proven track record of its ability to provide continuous, timely and steady supply of high quality materials for our production needs. Fusen Chinese Medicine was initially set up as a cooperation project with the governmental authorities in order to help the growth and development of the local agricultural community. Fusen Chinese Medicine collaborates with local farmers for the growth of medicinal herbs to ensure sufficient supply of quality medicinal herbs. The

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

plantation bases of Fusen Chinese Medicine and the farmers Fusen Chinese Medicine collaborated with are all located in and around Xichuan County, Henan Province where, due to its climate, soil and natural resources, is naturally optimal for growing quality *Lonicera japonica*. In addition, the close proximity of Fusen Chinese Medicine to the production source of *Lonicera japonica* best positions it in controlling the quality of *Lonicera japonica*, which in turn allows us to control the quality of the major raw materials of Shuanghuanglian-based cold medicines and exert strict control from the very beginning of the production process.

- *Normal commercial terms:* The terms of purchases with Fusen Chinese Medicine are normal commercial terms which are no less favourable to our Group and determined after arm's length negotiation with Fusen Chinese Medicine. The purchase price of the medicinal herbs sourced from Fusen Chinese Medicine was determined with reference to the prevailing comparable market price. Details of our pricing policy for our purchases with Fusen Chinese Medicine are set out in the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions — Purchase of medicinal herbs from Fusen Chinese Medicine — Pricing policy" of this prospectus. The terms of the purchase transactions (including the purchase price) between our Group and Fusen Chinese Medicine were comparable with those between our Group and other independent suppliers on similar purchasing arrangement taking account of various factors such as the expected purchase costs incurred by the suppliers, quantity ordered, delivery cost (which hinges on delivery schedule, delivery arrangement and location), payment terms and length of credit period offered to us, business relationship with the suppliers, and other prevailing market conditions.

Please refer to the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions" of this prospectus for further details of our transactions with Fusen Chinese Medicine after Listing.

Save as disclosed above, our Group's customers and suppliers are all independent from our Controlling Shareholders. Our Group does not rely on our Controlling Shareholders or their respective close associates and we have our independent access to customers and suppliers. Our Directors consider that our Group's operations do not depend on our Controlling Shareholders because (i) there is no competing business between our Group and any of our Controlling Shareholders; and (ii) our Group will not be relying on any guarantee provided by any of our Controlling Shareholders in respect of bank borrowings nor have our Group given any guarantee for the benefit of any of our Controlling Shareholders upon Listing.

On the basis of the above, our Directors believe that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

RULE 8.10 OF THE LISTING RULES

The Controlling Shareholders, our Directors and their respective close associates do not have any interest in a business (apart from our Group's business) which competes and is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

As at the Latest Practicable Date, Mr Cao Changcheng owned and controlled the following companies:

Name of company	Nature of business
Fusen Chinese Medicine	Trading of medicinal herbs
Fusen Shiye	Corporate management consultancy services
Great Health	Production of dietary supplements and beverages
Nanyang Fusen	Manufacture and distribution of magnesium powder and aluminum-magnesium alloy powder
Henan Fusen Organic Forestry and Fruit Limited* (河南福森有機農林果業有限公司)	Planting and sale of agricultural products
Xichuan Fusen Goods and Materials Limited* (浙川縣福森物資有限公司)	Processing and sale of building materials and hardware
Henan Fusen Advertising Limited* (河南福森廣告有限公司)	Advertising services
Xichuan Real Estate Development Limited* (浙川縣福森房地產開發有限公司)	Real estate development
Xichuan Danyang Hotel Limited* (浙川縣丹陽迎賓館有限公司)	Accommodation and catering services
Henan Danjiang Daguanyuan Tourism Limited* (河南丹江大觀苑旅遊有限公司)	Tourism services
Henan Fusen Property Service Limited* (河南福森物業服務有限公司)	Property management services
Nanyang Fusen Commercial Loan Consultation Limited* (南陽福森貸商務諮詢有限公司)	Commercial loan consultancy services

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Name of company	Nature of business
Henan Fusen General Airport Limited* (河南福森通用機場有限公司)	Airport management
Xichuan Hongxingda Building Material Limited* (浙川縣鴻興達建材有限公司)	Trading of building materials and hardware
Henan Fusen Holiday Inn Limited* (河南福森半島假日酒店有限公司)	Accommodation and catering services
Henan Fusen General Aviation Limited* (河南福森通用航空有限公司)	Airplane rental services
Shanghai Jia Luan Trading Limited* (上海嘉戀貿易有限公司)	Trading of building materials and hardware

Note: All of the above companies were established in the PRC.

Our Directors confirm that the above companies are not owned and controlled by our Group and their businesses are not in competition with the business of our Group.

NON-COMPETITION UNDERTAKINGS

In order to avoid any possible future competition between our Group and the Controlling Shareholders, each of Full Bliss and Mr. Cao Changcheng (each a “**Covenantor**” and collectively the “**Covenantors**”) has entered into the Deed of Non-competition with our Company (for ourselves and for the benefit of each other member of our Group) on June 14, 2018. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to our Company (for ourselves and as trustee for our subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure his/its close associates (other than any members of our Group) not to develop, acquire, invest in, participate in, carry on or be engaged in, concerned or interested in or otherwise be involved in, whether directly or indirectly, any business in competition with or likely to be in competition with the existing business activity of any member of our Group.

Each of the Covenantors further undertakes that if he/it or his/its close associates other than any member of our Group is offered or becomes aware of any business opportunity which may compete with the business of our Group, he/it shall (and he/it shall procure his/its close associates to) notify our Group in writing and our Group shall have a right of first refusal to take up such business opportunity. Such written notice shall include all information together with any documents possessed by it or its close associates in respect of the new business opportunity to enable our Company to evaluate the merit of the new business opportunity and all reasonable assistance as requested by our Company to enable us to come to an informed assessment of such new business opportunity. Our Group shall, within 6 months after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Covenantor(s) whether our Group will exercise the right of first refusal or not.

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Our Group shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The undertakings contained in the Deed of Non-competition are conditional upon the Listing Committee granting approval for the listing of and permission to deal in the Shares on the Stock Exchange and all conditions precedent under the Underwriting Agreements having been fulfilled (or where applicable, waived) and the Underwriting Agreements not having been terminated in accordance with their terms. If any such condition is not fulfilled on or before the date falling 30 days after the date of this prospectus (or if such date is not a Business Day, the immediate preceding Business Day), the Deed of Non-competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate on, in relation to any Covenantor, the earlier of (i) the date on which he/it together with his/its close associates, whether individually or taken together, ceases to be interested in or have control over 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company; or (ii) the date on which the Shares shall cease to be listed and traded on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange due to any reason).

As at the Latest Practicable Date, Fusen Chinese Medicine was wholly-owned by Fusen Shiye which was a connected person of our Group due to the fact that it was owned as to approximately 50% by Mr. Cao Changcheng, our executive Director, Chairman and Controlling Shareholder. In the event that Mr. Cao Changcheng proposes to dispose of his equity interest in Fusen Chinese Medicine to a third party other than the permitted transferees, our Group has a right of first refusal to purchase such equity interest on the same terms and conditions offered by the third party.

CORPORATE GOVERNANCE MEASURES

Each of the Controlling Shareholders has confirmed that he/it fully comprehends his/its obligations to act in the best interests of our Company and its Shareholders as a whole. To avoid potential conflicts of interest, our Group will implement the following measures:

- (i) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors (or their associates), the interested Directors shall abstain from voting at the relevant Board meeting and shall not be counted in the quorum;
- (ii) the Covenantors will make an annual confirmation as to compliance with his/its undertaking under the Deed of Non-competition for inclusion in the annual report of our Company;
- (iii) the Board is committed to the view that the Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on the Board which can effectively exercise independent judgement. Our Company

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

has appointed three independent non-executive Directors. Our Directors believe that our independent non-executive Directors are of sufficient caliber, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide impartial and professional advice to protect the interests of the minority Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors and Senior Management” in this prospectus;

- (iv) our Company has appointed Dakin Capital as the compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and internal controls. Please refer to the section “Directors and Senior Management — Compliance Advisor” in this prospectus for details in relation to the appointment of compliance advisor;
- (v) the Controlling Shareholders undertake to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition; and
- (vi) our independent non-executive Directors will, based on the information available to them, review on an annual basis (a) the compliance with the Deed of Non-competition; and (b) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-competition. Findings of such review will be disclosed in our annual report after the Listing.

CONNECTED TRANSACTIONS

EXEMPT CONTINUING CONNECTED TRANSACTION

Tenancy Agreement with Nanyang Fusen

On January 1, 2017, Fushan Medicinal Packaging, our subsidiary indirectly owned as to approximately 86.15% by our Company, and Nanyang Fusen entered into a tenancy agreement (the “**First Tenancy Agreement**”) pursuant to which, Nanyang Fusen as landlord, agreed to lease two adjacent parcels of land with a gross area of approximately 45,311 sq.m. and one production plant located thereon with a gross floor area of 4,005 sq.m. situated at Urban Industrial Zone, Xichuan County, Henan Province, China (浙川縣城區工業園區) (the “**Leased Land and Properties**”) to Fushan Medicinal Packaging, as tenant, for a term of three years ending on December 31, 2019 for an annual rent of RMB200,000.

Fushan Medicinal Packaging has leased the Leased Land and Properties since January 1, 2007 as our production facility and warehouse. The annual rent paid by Fushan Medicinal Packaging to Nanyang Fusen amounted to RMB200,000 for each of the three years ended December 31, 2017.

The annual rent of RMB200,000 under the First Tenancy Agreement was agreed after arm’s length negotiations between the parties with regard to (i) the historical amount of rent paid by Fushan Medicinal Packaging to Nanyang Fusen; and (ii) the prevailing market rates for similar properties in the vicinity.

Tenancy Agreement with Great Health

On January 1, 2016, Henan Fusen, our wholly-owned subsidiary, and Great Health entered into a tenancy agreement (the “**Second Tenancy Agreement**”) pursuant to which, Great Health as landlord, agreed to lease a premises in Houpo Industrial Zone, Xichuan County, Henan Province, China (浙川縣厚坡工業區) (the “**Leased Properties**”) with an aggregate gross floor area of approximately 4,032 sq.m. to Henan Fusen, as tenant, for a term of three years ending on December 31, 2018 for an annual rent of RMB90,000.

The annual rent of RMB90,000 under the Second Tenancy Agreement was agreed after arm’s length negotiations between the parties with regard to the prevailing market rates for similar properties in the vicinity.

Background of Nanyang Fusen and Great Health

Nanyang Fusen is a company incorporated in the PRC with limited liability and principally carries on the business of manufacture and distribution of magnesium powder and aluminum-magnesium alloy powder. As at the Latest Practicable Date, Nanyang Fusen was owned as to approximately 53.85% by Mr. Cao Changcheng, our executive Director, Chairman and Controlling Shareholder, as to approximately 15.38% by Mr. Chi Yongsheng, our executive Director, as to approximately 15.38% by Mr. Fu Jiancheng, our vice president, and as to approximately 15.38% by Mr. Quan Daliang (全大良) who is a beneficiary under the Fusen Trust. For details relating to the Fusen Trust, please refer to the section headed “History, Reorganization and Corporate Structure — Reorganization — (c) Establishment of the Fusen Trust” in this prospectus.

CONNECTED TRANSACTIONS

Given that more than 30% of the equity interests in Nanyang Fusen was owned by Mr. Cao Changcheng, Nanyang Fusen is a close associate of Mr. Cao Changcheng and hence a connected person of our Group. Consequently, the transactions contemplated under the First Tenancy Agreement will constitute continuing connected transactions for our Group under Chapter 14A of the Listing Rules after the Listing.

Great Health is a company incorporated in the PRC with limited liability and principally carries on the business of production of dietary supplements and beverages. As at the Latest Practicable Date, Great Health was wholly-owned by Fusen Shiye which was owned as to 50% by Mr. Cao Changcheng. Great Health is therefore a close associate of Mr. Cao Changcheng and a connected person of our Group. Consequently, the transactions under the Second Tenancy Agreement will constitute continuing connected transactions for our Group under Chapter 14A of the Listing Rules after the Listing.

Reasons for and benefits of the transactions under the First and Second Tenancy Agreements (the “Tenancy Agreements”)

Our Group has been (i) leasing the Leased Land and Properties from Nanyang Fusen for our packaging operation since 2007, and (ii) leasing the Leased Properties from Great Health for our pharmaceutical manufacturing operation since 2016. Our Directors (including our independent non-executive Directors) confirm that the Tenancy Agreements have been and will be conducted in the ordinary and usual course of business of our Group on normal commercial terms. As such the Directors considered that the entering into of the Tenancy Agreements is fair, reasonable and in the interests of the Group and the Shareholders as a whole.

Listing Rules Implications

Given that the relevant percentage ratio (other than the profits ratio) of the transactions contemplated under the Tenancy Agreements (as aggregated) is, on an annual basis, less than 0.1% and the annual rental is less than HK\$3 million, the transactions contemplated under the Tenancy Agreements are fully exempt from any reporting, annual review, announcement and independent shareholders’ approval requirements under Rule 14A.76(1) of the Listing Rules.

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Purchase of medicinal herbs from Fusen Chinese Medicine

During the Track Record Period, our Group had entered into certain transactions with Fusen Chinese Medicine for the supply of certain medicinal herbs for production of our Shuanghuanglian-based cold medicine products. After the Listing, we will continue to carry out such transactions with Fusen Chinese Medicine and such transactions will constitute continuing connected transactions (the “**Continuing Connected Transactions**”) for our Group under Chapter 14A of the Listing Rules. Details of the purchase transactions with Fusen Chinese Medicine are set out below:

Background of Fusen Chinese Medicine

Fusen Chinese Medicine is a company incorporated in the PRC with limited liability and principally carries on the business of trading of medicinal herbs. As at the Latest Practicable Date, Fusen Chinese Medicine was wholly-owned by Fusen Shiye which was a connected person of our Group due to the fact that it was owned as to 50% by Mr. Cao Changcheng, our executive Director, Chairman and Controlling Shareholder. Fusen Chinese Medicine is therefore a close associate of Mr. Cao Changcheng and a connected person of our Group. Consequently, transactions between our Group and Fusen Chinese Medicine will constitute Continuing Connected Transactions for our Group after the Listing.

Nature of the transactions

On June 14, 2018, a master purchase agreement (the “**Master Purchase Agreement**”) was entered into between Henan Fusen as purchaser and Fusen Chinese Medicine as supplier whereby our Group will purchase and Fusen Chinese Medicine will supply *Ionicera japonica* and baikal skullcap root (黄芩) as raw materials (the “**Relevant Materials**”) for production of our Shuanghuanglian-based cold medicine products.

The term of the Master Purchase Agreement will commence on the Listing Date and expire on December 31, 2020. The purchase price for the purchase transactions will be determined with reference to the prevailing comparable market price. Specific terms of the transactions will be determined on order-by-order basis and separate agreements will be entered into by the parties.

Reasons for and benefits of the transactions

We have sourced medicinal herbs from Fusen Chinese Medicine since 2012. Fusen Chinese Medicine collaborates with local farmers for the growth of medicinal herbs to ensure sufficient supply of quality medicinal herbs. The plantation bases/farms of Fusen Chinese Medicine and the farmers are all located in and around Xichuan County, Henan Province where, due to its climate, soil and natural resources, is naturally optimal for growing quality *Ionicera japonica* which is one of the major raw materials of our Shuanghuanglian-based cold medicine products. Since our Group is satisfied with the quality and timely delivery of the Relevant Materials provided by Fusen Chinese Medicine during the Track Record Period and the terms offered by Fusen Chinese Medicine to our Group are of normal commercial terms, our Directors are of the view that it will be in the interests of our Group and our Shareholders as a whole to continue such transactions with Fusen Chinese Medicine. As such, after the Listing, our Group will continue to purchase the Relevant Materials from Fusen Chinese Medicine.

CONNECTED TRANSACTIONS

Furthermore, given that our Group has established a long-term relationship with Fusen Chinese Medicine which has been providing the Relevant Materials to our Group since 2012, we believe we would achieve better and more efficient communication with Fusen Chinese Medicine on our business needs as compared to other third parties. In addition, the long-term relationship between our Group and Fusen Chinese Medicine in turn provides us with business and operational convenience. Hence, our Directors believe that the entering into of the Master Purchase Agreement will bring synergies to our Group's operation.

Historical transaction value

During the Track Record Period, our Group purchased the Relevant Materials from Fusen Chinese Medicine. For each of the three years ended December 31, 2015, 2016 and 2017, the aggregate amounts incurred by our Group for the purchase of the Relevant Materials from Fusen Chinese Medicine amounted to approximately RMB5.9 million, RMB26.9 million and RMB23.8 million respectively.

Pricing Policy

The purchase price for the purchase transactions will be determined on order-by-order basis with reference to the prevailing comparable market price after arm's length negotiation with Fusen Chinese Medicine. Our Group will purchase the Relevant Materials on an as-needed basis. As *Ionicera japonica* and *baikal skullcap root* required for our production are generally readily available in the market, we will obtain quotation from not less than three independent suppliers that provide similar raw materials before we make any purchase from Fusen Chinese Medicine. Based on the fee quotes provided by other independent suppliers, we will be able to ensure that the purchase price to be paid to Fusen Chinese Medicine by our Group represents the prevailing market price and on normal commercial terms.

Proposed annual caps

For the years ending December 31, 2018, 2019 and 2020, the estimated purchase price payable by our Group to Fusen Chinese Medicine in respect of the purchase of the Relevant Materials are approximately RMB30.0 million, RMB33.0 million and RMB36.0 million respectively.

Basis of annual caps

The proposed annual caps set out above for the three financial years ending December 31, 2020 in respect of the purchase of the Relevant Materials from Fusen Chinese Medicine were determined with reference to factors such as (i) the historical transaction amount between our Group and Fusen Chinese Medicine; (ii) the expected demand for the Relevant Materials by our Group for our production needs for the three years ending December 31, 2020 in view of the expected growth in demand for Shuanghuanglian-based cold medicine products driven by factors such as aging population in the PRC, improved awareness of personal health and purchasing power of patients, modernization of the PCM industry and national policies regulating the chemical cold medicine market (details of which are set out in the section headed "Industry Overview — Key growth drivers for the PCM cold medicine market in China" of this prospectus); (iii) the estimated business growth of our Group after the Listing as driven by the aforesaid growth drivers; and (iv) the estimated future growth of the PCM cold medicine market in the PRC which is expected to continue to grow at a CAGR of 10.1% from RMB23.7 billion in 2017 to RMB38.4 billion in 2022 as supported by the Frost & Sullivan Report. Moreover, PCM cold medicine market as a percentage of the entire cold medicine market in the PRC is expected to continue to grow at

CONNECTED TRANSACTIONS

a steady rate in the next five years as a result of the increasing awareness of side effects of western medicines and patients become more inclined to use PCM products to treat cold as such products are perceived to be safer, especially for long term use. For further details, please refer to the section headed “Industry Overview — Analysis of PRC cold medicine market in China — Market size and growth trend” of this prospectus.

Listing Rules implications

As the relevant applicable percentage ratios with respect to the transactions contemplated under the Master Purchase Agreement on an annual basis is more than 5% and the annual transaction amount will exceed HK\$10 million, the transactions contemplated under the Master Purchase Agreement will constitute non-exempt Continuing Connected Transactions for our Company after the Listing, and will be subject to reporting, annual review, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

APPLICATIONS FOR WAIVER

Given the recurring nature of the transactions contemplated under the Master Purchase Agreement, our Directors consider that strict compliance with the announcement, circular and independent Shareholders’ approval requirements under the Listing Rules would be impractical and burdensome, and would add unnecessary administrative costs to our Group each time when such transaction arises.

Pursuant to Rule 14A.105 of the Listing Rules, we have applied for and the Stock Exchange has agreed to grant a waiver from strict compliance with the announcement, circular and independent Shareholders’ approval requirements under the Listing Rules for the Master Purchase Agreement subject to the conditions that (i) the annual aggregate amount payable to our Group pursuant to the Master Purchase Agreement will not exceed the proposed annual caps stated above for each of the financial years ending December 31, 2018, 2019 and 2020; and (ii) we will comply with the reporting and annual review requirements under Chapter 14A of the Listing Rules.

Confirmation from our Directors

Having taken into account the information set out above, our Directors (including our independent non-executive Directors) confirm that the Continuing Connected Transactions have been and will be entered into in or incidental to the ordinary and usual course of our Group’s business and are based on normal commercial terms that are fair, reasonable and in the interests of our Group and our Shareholders as a whole, and that the proposed annual caps are fair, reasonable and in the interests of our Group and our Shareholders as a whole.

Our executive Directors with conflicted interest in the Continuing Connected Transactions (i.e. Mr. Cao Changcheng) shall be required to abstain from voting on relevant Board resolutions in relation to the Continuing Connected Transactions.

CONNECTED TRANSACTIONS

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that (1) the Continuing Connected Transactions have been entered into in the ordinary and usual course of our Group's business, (2) the Continuing Connected Transactions are based on normal commercial terms and are fair, reasonable and in the interests of our Company and our Shareholders as a whole, and (3) the proposed annual caps are fair, reasonable and in the interests of our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

OVERVIEW

Our Board currently consists of nine Directors, comprising five executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business. The following table sets out information regarding our Directors and our senior management:

Name	Age	Position	Date of joining our Group	Date of appointment as Directors of our Company	Responsibilities	Relationship with other Directors and senior management
Cao Changcheng (曹長城)	61	Executive Director and the Chairman of our Board	October 2003	November 20, 2016	Responsible for formulation of overall business development strategy and major business decision of our Group, and performing his role as the Chairman of the Board, the chairman of the Nomination Committee and a member of the Remuneration Committee	Father of Mr. Cao Dudu
Hou Taisheng (侯太生)	55	Executive Director	October 2003	April 7, 2017	Responsible for overseeing the sales and marketing of our Group	N/A
Chi Yongsheng (遲永勝)	56	Executive Director	October 2003	April 7, 2017	Responsible for overseeing the financial operation of our Group	N/A
Meng Qingfen (孟慶芬)	53	Executive Director	October 2003	April 7, 2017	Responsible for overseeing the research, development and quality control of our products and the production of our Group	N/A
Cao Dudu (曹篤篤)	32	Executive Director and Chief Executive Officer	January 2013	January 18, 2013	Responsible for the general management, supervising day-to-day operation, overseeing the investor relations and advising on corporate strategy of our Group	Son of Mr. Cao Changcheng
Wang Jianhang (王建航)	35	Non-Executive Director	December 2017	December 22, 2017	Responsible for participating in our Company's decision making on major matters such as operational strategies	N/A
Sze Wing Chun (施永進)	41	Independent Non-Executive Director	June 2018	June 14, 2018	Performing his role as independent non-executive Director and the chairman of the Audit Committee	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of appointment as Directors of our Company	Responsibilities	Relationship with other Directors and senior management
Shang Lei (尚磊)	39	Independent Non-Executive Director	June 2018	June 14, 2018	Performing his role as independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee	N/A
Ho Ka Chun (何家進)	37	Independent Non-Executive Director	June 2018	June 14, 2018	Performing his role as independent non-executive Director and a member of the Audit Committee, Nomination Committee and Remuneration Committee	N/A

Senior Management

Name	Age	Position	Date of joining our Group	Date of appointment of current position	Responsibilities	Relationship with other Directors and senior management
Leung Wai Fung Joseph (梁偉峰)	47	Chief Financial Officer	January 2017	January 9, 2017	Responsible for our Group's overall financial accounting and corporate governance matters	N/A
Fu Jiancheng (付建成)	58	Vice President	October 2003	December 22, 2017	Responsible for our Group's human resources and administrative management	N/A

DIRECTORS

Executive Directors

Mr. Cao Changcheng (曹長城先生), aged 61, is our executive Director, our Chairman of the Board and the founder of our Group. Mr. Cao is one of our Controlling Shareholders and also a director of Henan Fusen. Mr. Cao is primarily responsible for the formulation of overall business development strategy and major business decision of our Group. He has over 17 years of experience in the pharmaceutical industry. Prior to joining our Group, Mr. Cao was the general manager of Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from November 2000 to October 2003.

Under the leadership of Mr. Cao, Henan Fusen successfully developed Shuanghuanglian Oral Solutions and Shuanghuanglian Injections and they have become our major products since 2004. Henan Fusen also obtained the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese

DIRECTORS AND SENIOR MANAGEMENT

medicine) in 2008. Mr. Cao's innovation also led to the establishment of the Henan Province Micro-encapsulation Technology Research Centre (河南微囊化藥物工程技術研究中心) in 2012 and Henan Fusen was recognized by the Henan Department of Science and Technology (河南省科學技術廳) as a High New Technology Enterprise (高新技術企業) in 2015.

Mr. Cao obtained a graduation certificate of the major of Economic Administration from Northeastern University (東北大學) in July 2000 through long distance learning. He was awarded a Certificate of the completion of Advance Course in Business Development Strategy and Innovative Operation Skills (企業戰略與創新經營高級研修班) by Tsinghua University (清華大學) in October 2014 through long distance learning.

Mr. Cao has been currently a member of the 12th People's Congress of Henan Province (第12屆河南省人民代表大會委員) since January 2013.

Mr. Cao is the father of Mr. Cao Dudu who is our executive Director and the chief executive officer of our Company.

During the three years immediately preceding the Latest Practicable Date, Mr. Cao has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Hou Taisheng (侯太生先生), aged 55, is our executive Director. Mr. Hou joined our Group in October 2003 as a director and executive vice president of Henan Fusen. Mr. Hou is primarily responsible for general management and overseeing the sales and marketing of our Group. He has over 15 years of experience in the pharmaceutical industry in the PRC. Prior to joining our Group, Mr. Hou was the deputy general manager of Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from March 2002 to October 2003.

He was also a sales representative in charge of the sales and marketing of our products in Nanyang city and Henan Province from 2003 to 2007. Under the leadership of Mr. Hou, Henan Fusen has developed extensive nationwide sales and distribution network covering each of the 31 provinces, autonomous regions and centrally administered municipalities in the PRC since 2016.

Mr. Hou obtained an Associate Degree of Business Administration from the Party School of the Henan Provincial Committee of CPC (河南省委黨校) in July 1982 through long distance learning.

During the three years immediately preceding the Latest Practicable Date, Mr. Hou has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Chi Yongsheng (遲永勝先生), aged 56, is our executive Director. Mr. Chi joined our Group in October 2003 as a director and vice president of Henan Fusen. Mr. Chi is primarily responsible for overseeing the financial operation of our Group. He has over 19 years of experience in the pharmaceutical industry in PRC. Prior to joining our Group, Mr. Chi worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1995 to October 2003. Mr. Chi was responsible for the audit work in Henan Xichuan Pharmaceutical and he was promoted to manage the finance department in 2000.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chi obtained an Associate Degree of Business Management from the Henan Agricultural University (河南農業大學) in July 1994 through an off-the-job learning programme.

During the three years immediately preceding the Latest Practicable Date, Mr. Chi has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Ms. Meng Qingfen (孟慶芬女士), aged 53, is our executive Director. Ms. Meng joined our Group in October 2003 as a director and vice president of Henan Fusen. Ms. Meng is primarily responsible for overseeing the research, development and quality control of our products and the production of our Group. She has over 22 years of experience in the pharmaceutical industry in the PRC. Prior to joining our Group, Ms. Meng worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1988 to October 2003 with her latest position as deputy general manager. Ms. Meng was the supervisor of the production line for extraction of traditional Chinese medicine (提取車間) in 1993 and she was also in charge of the quality control system in 1998 during her time in Henan Xichuan Pharmaceutical. Ms. Meng has been the head of our Group's production house since 2003 responsible for ensuring the safety and quality of our products. With her help, Henan Fusen was able to obtain the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine) in 2008. Ms. Meng has also been appointed as the head of our Group's research and development team in 2013 to strengthen our research and development effort and broaden our product offering.

Ms. Meng obtained a Diploma in Animal Husbandry from Zhengzhou Animal Husbandry and Veterinary College (鄭州畜牧獸醫專科學校) in July 1986 and an Associate Degree of Pharmacy from the Pharmaceutical College of Henan University (河南大學藥學院) in July 2006 through long distance learning.

During the three years immediately preceding the Latest Practicable Date, Ms. Meng has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Cao Dudu (曹篤篤先生), aged 32, is our executive Director and the chief executive officer of our Company who is primarily responsible for the general management, supervising day-to-day operation, overseeing the investor relations and advising on corporate strategy of our Group. Mr. Cao joined our Group in January 2013 as a Director of our Company and in March 2013 as an executive assistant of the chairman of the board of Henan Fusen. He has over 9 years of working experience in securities and corporate finance. Mr. Cao's previous working experience includes the following:

<u>Name of companies</u>	<u>Principal business activities</u>	<u>Latest position</u>	<u>Period of services</u>
Essence International Securities (Hong Kong) Limited (安信國際證券(香港)有限公司)	Dealing in and advising on securities	Licensed representative (dealing in securities and futures contracts)	July 2012– February 2013

DIRECTORS AND SENIOR MANAGEMENT

<u>Name of companies</u>	<u>Principal business activities</u>	<u>Latest position</u>	<u>Period of services</u>
Haitong International Securities Group Limited (海通國際證券集團有限公司) (stock code: 665)	Dealing in and advising on securities; leveraged foreign exchange trading	Licensed representative (dealing in securities and futures contracts)	April 2010– June 2012
Haitong Securities (HK) Brokerage Limited (海通證券(香港)經紀有限公司)	Dealing in and advising on futures contracts and securities	Licensed representative (dealing in securities and futures contracts)	March 2010– May 2011
Okasan International (Asia) Limited (岡三國際(亞洲)有限公司)	Dealing in futures contracts and securities; advising on securities and corporate finance; asset management	Licensed representative (dealing in securities and futures contracts)	March 2009– December 2009
Core Pacific-Yamaichi Securities (H.K.) Limited (京華山一國際(香港)有限公司)	Dealing in and advising on securities; advising in corporate finance; providing automated trading service; asset management	Licensed representative (dealing in securities and futures contracts)	August 2007– February 2009

Mr. Cao obtained a Bachelor of Business Administration in Business Economics from the City University of Hong Kong (香港城市大學) in November 2007 and a master degree of Science in Finance from the Chinese University of Hong Kong (香港中文大學) in November 2012. Mr. Cao had also obtained licenses for carrying on type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO for his employers during the period from August 2007 to February 2013.

Mr. Cao is the son of Mr. Cao Changcheng who is our executive Director and the Chairman of our Board.

During the three years immediately preceding the Latest Practicable Date, Mr. Cao has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

Non-Executive Directors

Mr. Wang Jianhang (王建航先生), aged 35, is our non-executive Director who is primarily responsible for participating in our Company's decision making on major matters such as operational strategies. Mr. Wang has over 13 years of working experience in the financing, investment and merger & acquisitions projects in pharmaceutical companies. He is currently the executive general manager of China Resources Pharmaceutical Industrial Investment Fund LLP. Mr. Wang's previous working experience includes the following:

<u>Name of companies</u>	<u>Principal business activities</u>	<u>Latest position</u>	<u>Period of services</u>
Hanmi Pharm Company Limited (北京韓美藥品有限公司)	Pharmaceutical product development and manufacturing	Business Development Supervisor and Strategic Manager	July 2010 – July 2012
Huaxipharm Company Limited (北京華禧聯合科技有限公司)	Pharmaceutical product development	Enterprise Development Manager	October 2005 – July 2010
Beijing Zhongfeng Tianheng Pharmaceutical Technology Development Company Limited (北京中豐天恒醫藥技術開發有限公司)	Pharmaceutical product development	Marketing Specialist	July 2004 – September 2005

Mr. Wang graduated from Beijing University of Chinese Medicine (北京中醫藥大學) with a Bachelor of Science degree in the major of Chinese Medicine and obtained a graduation certificate in the minor of Business Administration in June 2004.

During the three years immediately preceding the Latest Practicable Date, Mr. Wang has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-Executive Directors

Mr. Sze Wing Chun (施永進), aged 41, was appointed as our independent non-executive Director on June 14, 2018. Mr. Sze has over 18 years of experience in auditing, accounting and taxation. Mr. Sze is currently a director of Ascenda Cachet CPA Limited which is a Certified Public Accountants' firm in Hong Kong. Mr. Sze's previous working experience includes the following:

<u>Name of companies</u>	<u>Principal business activities</u>	<u>Latest position</u>	<u>Period of services</u>
Crowe Horwath (HK) CPA Limited	Professional accounting and auditing	Associate Director	February 2012– February 2017
Deloitte Touche Tohmatsu	Professional accounting and auditing	Senior Manager	September 1998– November 2011

Mr. Sze obtained a Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology in November 1998. He has been a member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since October 2002 and became a fellow member in May 2017. Mr. Sze has also been a fellow member of the Association of Chartered Certified Accountants since October 2006.

During the three years immediately preceding the Latest Practicable Date, Mr. Sze has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Shang Lei (尚磊先生), aged 39, was appointed as our independent non-executive Director on June 14, 2018. Mr. Shang has over 9 years of experience in the pharmaceutical industry. Mr. Shang is experienced in the operation of the pharmaceutical and capital markets, and participated in merger & acquisitions, investment and financing projects of quite a number of listed or proposed-listing pharmaceutical companies.

Mr. Shang obtained a Bachelor of Finance from the Xi'an Jiao Tong University (西安交通大學) in July 2001 and a master degree of International Business and Finance from the University of Reading in July 2003.

From June 2008 to June 2011, Mr. Shang had been a director and the secretary of the board of Harbin Gloria Pharmaceuticals Co. Ltd (哈爾濱譽衡藥業股份有限公司), a China-based company listed on Shenzhen Stock Exchange (stock code: 2437.SZ) which principally carries on the business of medicine researches, production and sales. Since June 2011, Mr. Shang has been a director of Tibet Aim Pharm. Inc. (西藏易明西雅醫藥科技股份有限公司), a China-based company listed on Shenzhen Stock Exchange since December 9, 2016 (stock code: 2826.SZ) which principally carries on the business of manufacture and distribution of chemical drugs and Chinese patent medicine.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, during the three years immediately preceding the Latest Practicable Date, Mr. Shang has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Ho Ka Chun (何家進先生), aged 37, was appointed as our independent non-executive Director on June 14, 2018. Mr. Ho has over 10 years of experience in professional auditing and is experienced in investors relationship management, mergers & acquisitions and overseas financing. Mr. Ho is currently an independent non-executive director of Bao Shen Holdings Limited (listed on GEM of the Stock Exchange) (stock code: 8151) and the Chief Financial Officer of the China Tontine Wines Group Limited (listed on the Main Board of the Stock Exchange) (stock code: 389). Mr. Ho's previous working experience includes the following:

<u>Name of companies</u>	<u>Principal business activities</u>	<u>Latest position</u>	<u>Period of services</u>
Deloitte Touche Tohmatsu Certified Public Accountants LLP Guangzhou Branch	Professional accounting and auditing services	Senior Manager	January 2013– December 2015
Deloitte Touche Tohmatsu	Professional accounting and auditing	Manager	August 2004– December 2012

Mr. Ho obtained a Bachelor of Business Administration (Professional Accountancy) from the Chinese University of Hong Kong (香港中文大學) in 2004. He is fellow member of the Hong Kong Institute of Certified Public Accountants.

Save as disclosed above, during the three years immediately preceding the Latest Practicable Date, Mr. Ho has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Directors' interest

Save as disclosed in this section, each of our Directors (i) did not hold other positions in our Company or other members of our Group as of the Latest Practicable Date; and (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders of our Company as of the Latest Practicable Date.

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, save as disclosed herein, there was no additional matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders, and there was no additional information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as of the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Leung Wai Fung Joseph (梁偉峰先生), aged 47, was appointed as our company secretary and chief financial officer of our Group in January 2017. Mr. Leung is responsible for overseeing our Group's overall financial accounting and corporate governance matters. He has over 20 years of experience in audit and accounting. His previous working experience includes the following:

<u>Name of companies</u>	<u>Principal business activities</u>	<u>Latest position</u>	<u>Period of services</u>
Hailan Holdings Limited (海藍旅遊控股有限公司) (stock code: 2278)	Property developer	Chief Financial Officer and Company Secretary	September 2015– September 2016
China Agri-industries Holdings Limited (中國糧油控股有限公司) (stock code: 606)	Production and supply of processed agricultural products	Head of Internal Audit Department (Beijing headquarters)	December 2007– February 2014
COFCO Biochemical (AnHui) Co., Ltd. (中糧生物化學(安徽)股份有限公司) (and formerly AnHui BBCA Biochemical Co., Ltd (安徽豐原生物化學股份有限公司) (stock code: 0930.SZ)	Manufacturer of citric acid, citrate products, related by products and cooking oil	Member of the 5th Supervision Committee	January 2011– January 2014
Wing Tai Properties Limited (永泰地產有限公司) (and formerly USI Holdings Limited (富聯國際集團有限公司) (stock code: 369)	Apparel manufacturer and property developer	Internal Audit Manager	January 2006– December 2007
PricewaterhouseCoopers	Accounting and auditing services	Senior Manager	February 1997– July 2005

DIRECTORS AND SENIOR MANAGEMENT

Mr. Leung obtained a Bachelor of Commerce from the Concordia University, Canada in May 1997. He has been a Certified Public Accountant accredited by the Washington State Board of Accountancy, the American Institute of Certified Public Accountants (AICPA) and the Hong Kong Institute of Certified Public Accountants since April 23, 2002, May 31, 2002 and January 1, 2003 respectively. Mr. Leung has later become a Fellow Certified Public Accountant (FCPA) on May 14, 2013 in Hong Kong. In August 2012, Mr. Leung completed Advanced Course in Enterprise Risk Quantitative Analysis Research (企業風險量化分析高級研修班) from Peking University and became a Certified Enterprise Risk Manager in PRC as recognized by the Asia Association of Risk and Crisis Management in February 2014. Further in June 2015, Mr. Leung became a member of the Hong Kong Business Accountants Association.

During the three years immediately preceding the Latest Practicable Date, Mr. Leung has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

Mr. Fu Jiancheng (付建成先生), aged 58, is our vice president. Mr. Fu joined our Group in October 2003 as a supervisor of Henan Fusen. Mr. Fu is primarily responsible for the human resources and administrative management of our Group. He has over 14 years of experience in the pharmaceutical industry in PRC.

Mr. Fu obtained an Associate Degree of Sales Management from the Henan Institute of Coal Industry Management (河南煤炭管理幹部學院) in July 1980 through long distance learning.

During the three years immediately preceding the Latest Practicable Date, Mr. Fu has not been a director of a public company the securities of which are listed on any securities market in Hong Kong or overseas.

COMPANY SECRETARY

Mr. Leung Wai Fung Joseph is the company secretary of our Group. Details of his qualifications and experience are set out in the paragraph headed “Senior Management” above in this section.

DIRECTORS AND SENIOR MANAGEMENT

COMMITTEES OF THE BOARD OF DIRECTORS

Our Board of Directors delegates certain responsibilities to various committees. In accordance with the Articles of Association and the Listing Rules, we have formed three board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

Audit Committee

Our Company established an audit committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in compliance with the Corporate Governance Code. Our Audit Committee consists of Mr. Sze Wing Chun, Mr. Ho Ka Chun and Mr. Shang Lei. Mr. Sze Wing Chun currently serves as the chairman of the Audit Committee.

The principal responsibilities of the Audit Committee include:

- reviewing our Company's annual financial statements;
- reviewing and monitoring the extent of the non-audit work undertaken by external auditors;
- advising on the appointment of external auditors; and
- reviewing the effectiveness of our Company's internal audit activities, internal controls and risk management systems.

Remuneration Committee

Our Company established a remuneration committee in compliance with Rule 3.25 of the Listing Rules with written terms of reference in compliance with the Corporate Governance Code. Our Remuneration Committee consists of Mr. Shang Lei, Mr. Cao Changcheng and Mr. Ho Ka Chun. Mr. Shang Lei currently serves as the chairman of the Remuneration Committee.

The principal responsibilities of the Remuneration Committee include:

- making recommendations to our Board on our Company's policy on executive Director's remuneration;
- determining, the individual remuneration and benefits package of each of our executive Directors; and
- recommending and monitoring the remuneration of senior management below Board level.

Nomination Committee

Our Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code. Our Nomination Committee consists of Mr. Cao Changcheng, Mr. Ho Ka Chun and Mr. Shang Lei. Mr. Cao Changcheng currently serves as the chairman of the Nomination Committee.

DIRECTORS AND SENIOR MANAGEMENT

The principal responsibilities of the Nomination Committee include:

- assisting our Board in discharging its responsibilities relating to the composition of our Board;
- evaluating the balance of skills, knowledge and experience on our Board;
- evaluating the size, structure and composition of our Board; and
- evaluating the retirements and appointments of additional and replacement directors and making appropriate recommendations to our Board on such matters.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors receive compensation in the form of Directors fee, salaries, allowances, discretionary bonus and other benefits as well as contribution to retirement benefit schemes. The total remuneration paid to our Directors for the three years ended December 31, 2017 was approximately RMB0.2 million, RMB1.5 million and RMB0.5 million, respectively.

Under the arrangement currently in force, we estimate the total remuneration to be paid to our Directors for the year ending December 31, 2018 to be HK\$2.6 million.

We did not pay to our Directors or the five highest paid individuals any inducement fees to join us or as compensation for loss of office for the three years ended December 31, 2017. Furthermore, none of our Directors waived any compensation for the same period.

During the Track Record Period, no emoluments were paid by our Group, our Directors or to the above highest paid individuals as (i) an inducement to join or upon joining our Group or (ii) as compensation for loss of office as a director or management of any members of our Group. Furthermore, none of our Directors or the highest paid individuals waived any compensation for the same period.

Save as disclosed above, no other payments have been paid or are payable, in respect of the three financial years ended December 31, 2017 by us or any of our subsidiaries to our Directors.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimize their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. The principal terms of this scheme are summarized in the paragraph headed “Statutory and General Information — (D) Share Option Scheme” in Appendix IV to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

The maximum number of Shares which may be issued, upon exercise of all options that may be granted under the Share Option Scheme and any other option scheme involving the issue or grant of options over Shares or other securities by our Company or any of its subsidiaries or invested entity shall not in aggregate exceed 10% of the aggregate number of Shares in issue as of the date of Listing; and the Board has been authorized to determine the grant of a right to subscribe for Shares under, and pursuant to the terms of the Share Option Scheme and to determine the grantees, number of options to be granted to each grantee and the terms and conditions of such grants pursuant to the terms of, the Share Option Scheme.

COMPLIANCE ADVISOR

We have agreed to appoint Dakin Capital to be our compliance advisor upon Listing on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. We have entered into a compliance advisor's agreement with the compliance advisor prior to the Listing Date, the material terms of which are as follows:

- the term of appointment of the compliance advisor will commence on the Listing Date of our Company and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date (i.e. the date of despatch of the annual reports of our Company in respect of our results for the financial year ending December 31, 2019), or until the agreement is terminated, whichever is earlier;
- the compliance advisor will provide us with certain services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines and advice on the continuing requirements under the Listing Rules and applicable laws and regulations;
- our Company will consult with and, if necessary, seek advice from Dakin Capital as our compliance advisor in the following circumstances:
 - (a) before the publication of any regulator announcement, circular or financial report;
 - (b) where a transaction which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
 - (c) where our Company intends to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviates from any forecast, estimate or other information in this prospectus; and
 - (d) where the Stock Exchange makes any enquiry to our Company under Rule 13.10 of the Listing Rules; and
- the compliance advisor will serve as a channel of communication with the Stock Exchange.

STAFF

Please refer to the section headed "Business — Employees" in this prospectus for details relating to number of staff, staff benefits, training and recruitment policy of our Group.

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You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements as of and for each of the years ended December 31, 2015, 2016 and 2017 and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. Our consolidated financial statements have been prepared in accordance with IFRSs. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are the leading Shuanghuanglian-based cold medicine brand in terms of revenue in 2017, and Shuanghuanglian-based cold medicine is a major segment in the PCM cold medicine market with a 8.2% share in 2017, both according to the Frost & Sullivan Report. In 2017, in terms of revenue, we were the largest Shuanghuanglian-based cold medicine manufacturer and the eighth largest PCM cold medicine manufacturer with market shares of 33.3% and 2.9%, respectively, both according to the same source. Shuanghuanglian Oral Solutions, one of our major products, is also the largest medicine category in the PCM cold medicine market, accounted for 4.6% of the market in terms of revenue in 2017 according to the Frost & Sullivan Report. In addition to offering our core products Shuanghuanglian-based cold medicines, we are engaged in the research, development, production and sales of a wide variety of PCM and western medicine products for the treatments of cold and fever, cardiovascular diseases and anemia, many of which also enjoy a leading market share in their respective markets according to the Frost & Sullivan Report. For example, in 2017, our Flunarizine Hydrochloride Capsules (鹽酸氟桂利嗪膠囊) had the third largest market share in China, our Chaihu Injection (柴胡注射液) had the fourth largest market share in China and we dominated the Compound Ferrous Sulfate Granules (複方硫酸亞鐵顆粒) in China, all according to the same source.

We have established an extensive nationwide sales and distribution network that covers 30 of the 31 provinces, autonomous regions and centrally administered municipalities in China. As of December 31, 2017, we had 257 sales representatives stationed at our headquarters and in 17 cities that administered a sales and distribution network that consists of 1,647 distributors and 169 direct sales customers, primarily drugstore chains.

Our leading brand, ability to source quality raw materials, strong production capability and wide distribution network all contributed to our past financial success. Our total revenue increased by 19.9% from RMB368.6 million in 2015 to RMB442.0 million in 2016, and further increased by 2.4% to RMB452.6 million in 2017. Our gross profit increased by 28.2% from RMB173.3 million in 2015 to RMB222.2 million in 2016 and further increased by 13.4% to RMB251.9 million in 2017. Our gross margin also improved from 47.0% in 2015 to 50.3% in 2016 and 55.7% in 2017.

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FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe the most significant factors that directly or indirectly affect our financial performance and results of operations include:

- Market demand for Shuanghuanglian-based cold medicines;
- Performance and expansion of our marketing, sales and distribution network;
- Policies and regulations of the PCM industry;
- Wholesale price of our products;
- Cost of raw materials;
- Preferential tax treatment; and
- Seasonality.

Market demand for Shuanghuanglian-based cold medicines

Our revenue growth during the Track Record Period was primarily attributable to increases in the sales of our Shuanghuanglian-based cold medicines to distributors and drugstore chains. As a result, our business expansion and revenue growth depend on growth in market demand for Shuanghuanglian-based cold medicines. Market demand for our Shuanghuanglian-based cold medicines is affected by factors including consumer perception of our brand, similar products offered by our competitors, patients' purchasing power and the changes in the regulatory environment in China. According to the Frost & Sullivan Report, the Shuanghuanglian-based cold medicine market grew at a CAGR of 2.5% from 2012 to 2017 and the market for Shuanghuanglian-based cold medicine (including Shuanghuanglian Oral Solutions and Shuanghuanglian Injections etc.) accounted for approximately 8.2% of China's highly fragmented PCM cold medicine market in terms of revenue in 2017.

The Shuanghuanglian-based medicine market is expected to continue to grow at a CAGR of 10.7% from 2017 to 2022, primarily benefitted by factors such as fewer side effects as compared to chemical cold medicines and more stringent restrictions on usage of antibiotics and compound preparations containing ephedrine alkaloids, which limited patients' access to such medications according to the Frost & Sullivan Report. As a market leader in the Shuanghuanglian-based cold medicine market in China, we expect our business expansion and revenue growth to be supported by such growth trend.

Performance and expansion of our sales and distribution network

The growth of our revenue depends on the performance and expansion of our sales and distribution network across China. As of December 31, 2017, we had 257 sales representatives stationed at our headquarters and in 17 cities that administered a sales and distribution network that consists of 1,647 distributors and 169 direct sales customers. We believe that our extensive distribution network has enabled us to achieve market expansion and wide geographical coverage. We will continue to expand our sales and distribution network further increase our market share and deepen market penetration.

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In order to further broaden our customer base and increase our market share, we plan to continue to expand our geographic coverage and deepen our market penetration by expanding our distribution network. We aim to, pursue sales strategies tailored to different regions, strengthen our relationship with current distributors and engage reputable distributors with strong local knowledge. In particular, we plan to expand our sales team to closely track local market intelligence, allocate resource to explore these markets and cater to the specific needs of different local markets and ensure timely communication and develop business opportunities. We established an in-house OTC sales team in 2017 to further explore the market for OTC medicines by focusing on drugstore chains and standalone drugstores. We expect that the continual expansion of our sales and distribution network as well as the business growth of our existing outlets will continue to be a driving factor of our success.

Policies and regulations of the PCM industry

The PCM industry in China, including the Shuanghuanglian-based cold medicine industry, is highly regulated. Government policies and regulations and their implementation and enforcement have had, and are expected to continue to have, a material effect on the manufacture, sale and use of PCM products and therefore affect our results of operations. See “Regulations” for further details.

Favorable policies and incentives adopted by the Chinese government in recent years to support the PCM industry have contributed and are expected to continue to contribute to an increase in market demand for PCM products. Changes in policies and regulations may materially and adversely affect our results of operations. In addition, we are required to comply with various quality standards and requirements set forth in the Chinese Pharmacopeia and other relevant regulations. Changes in such standards and requirements could cause us to incur substantial compliance costs and may affect our ability to supply sufficient products to meet market demand in a timely manner. See “Risk Factors — Risks Relating to the Pharmaceutical Industry — The pharmaceutical industry is highly regulated and the regulatory framework, requirements and enforcement trends may change from time to time” for further details.

Wholesale price of our products

During the Track Record Period, the substantial majority of our revenue was generated from our sales to distributors. As such, our financial performance is directly affected by the wholesale price of our products sold to distributors. We generally determine and adjust such wholesale price based on factors including (i) cost of production, research and development, sales and marketing; and (ii) prevailing market conditions, such as demands, pricing and competition. Substantially all of our products were subject to retail price controls imposed by the PRC government before the Drug Pricing Notice was issued in June 2015. After the notice took effect, our products were no longer under price control. See “Business — Sales and Distribution — Pricing Strategies” for further details.

Starting in February 2016 till the end of 2017, we raised the wholesale prices of various packaging types of our Shuanghuanglian Oral Solutions several times. As a result, the average selling price of our Shuanghuanglian Oral Solutions increased from RMB0.47 per 10ml and RMB0.82 per 20ml in 2015 to RMB0.52 per 10ml and RMB0.93 per 20ml in 2016 and further to RMB0.67 per 10ml and RMB1.07 per 20ml in 2017. These wholesale price hikes resulted in (i) a number of our distributors strategically increased their orders in the first half of 2016 in anticipation of subsequent wholesale price rises. The larger orders in the first half of 2016 resulted in reduced orders in the second half of 2016 and 2017; and (ii) a number of distributors determined to reduce orders with us to observe the market reaction to

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our price rises. In response to such development, we have implemented practical schemes to promote the sales of our Shuanghuanglian Oral Solutions, primarily through discount, upgrading of packaging to strengthen a price-for-value perception and stronger sales efforts. In the future, to the extent we raise our wholesale price again and result in an unsatisfactory pricing structure to our distributors, we might experience lower sales volume and accordingly lower revenue and profit. However, increasing of wholesale price can result in higher gross profit margin, as evidenced by the increase in gross profit margins of our Shuanghuanglian Oral Solutions from 36.5% in 2015 to 43.8% in 2016 and 50.0% in 2017.

Cost of raw materials

Our cost of sales directly affects our profitability. The major components of our cost of sales include costs of raw materials and packaging materials. In 2015, 2016 and 2017, the cost of raw materials, primarily medicinal herbs, accounted for 21.2%, 21.0% and 18.5% of our revenue for 2015, 2016 and 2017, respectively. On the other hand, the cost of packaging materials accounted for 15.5%, 14.8% and 11.6%, of our revenue for 2015, 2016 and 2017, respectively. Apart from the change in our wholesale price, the price fluctuations of the major medicinal herbs are the main driver behind the fluctuation of our gross margin. Going forward, we expect the prices of medicinal herbs to continue to impact our results of operations and in particular our gross profit and gross margin in particular if we are unable to pass on the price increases on to our customers.

The prices and availability of different types of medicinal herbs may vary from period to period primarily due to factors such as the growth cycles of relevant medicinal herbs, market conditions and our bargaining power with suppliers. We are exposed to the market risk of price fluctuation of raw medicinal herbs, and fluctuation in such prices may cause fluctuation in our cost of sales. In order to ensure we are able to reach the optimal balance between the quality and price of our raw materials, we compare prices of raw materials available from our pre-approved potential suppliers and also adopt pricing tender process with our third-party suppliers.

See “Risk Factors — We rely on a stable supply of quality raw materials to manufacture our products, and a decrease in the supply, or an increase in the cost, of these raw materials could materially and adversely affect our business, financial condition and results of operations” for further details.

Preferential tax treatment

During the Track Record Period, all of our revenue was derived from the sales of our products in the PRC. Preferential tax treatment in the PRC historically has had a material effect on our results of operations. Beginning on January 1, 2008, the PRC’s statutory EIT rate has been 25% which is applicable to us and all of our subsidiaries. However, we enjoy several preferential tax treatments pursuant to relevant laws and regulations. Henan Fusen, a subsidiary of our Company, was accredited as a High New Technology Enterprise in Henan province as it satisfied the conditions prescribed by the *Administrative Measures on Accreditation of High New Technology Enterprises* (《高新技術企業認定管理辦法》), or the Administrative Measures, including authority to use the intellectual properties of the principal products or service, principal products or services fall into the scope of the high-tech areas supported by the state (國家重點支持的高新技術領域) and a minimum proportion of science and technology personnel, research and development spending and revenue from high new technology products as prescribed in the Administrative Measures, and has been entitled to a preferential income tax rate of 15% since 2012 and such certificate will expire in August 2018. In 2015, 2016 and 2017, our

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effective tax rate was 19.6%, 16.2% and 16.6%, respectively. See “— Principal Components of Consolidated Statement of Profit or Loss and Other Comprehensive Income — Income Tax” for further details.

We expect to continue to enjoy reduced EIT rates in the future. The discontinuation of any preferential tax treatment currently available to us will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations. See “Risk Factors — Risks Related to Our Business — We may not be able to enjoy the various benefits including preferential income tax treatment associated with the accreditation as a High New Technology Enterprise” for further details.

Seasonality

We have historically experienced higher sales of our Shuanghuanglian-based cold medicines from November to February as compared to the rest of the year. As a result, our revenue is higher in the first and fourth quarter each year. This seasonality can be the result of a combination of several factors that are beyond our control.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on January 18, 2013 and became the holding company of our Group as a result of our Reorganization. See “History, Reorganization and Corporate Structure” for further details. Our Company did not carry out any business prior to the Reorganization and its business was conducted through Henan Fusen and its subsidiary. The Reorganization involved the insertion of the non-operating companies as holding companies of Henan Fusen and there was no change in business and operation of Henan Fusen. Accordingly, no business combination has occurred and the Reorganization has been accounted for using a principle similar to that for a reverse acquisition as set out in IFRS 3, Business Combinations, with Henan Fusen being treated as the acquirer for accounting purposes. Our financial information was prepared as a continuation of Henan Fusen and the assets and liabilities of Henan Fusen and its subsidiary are recognized and measured at their historical carrying value prior to the Reorganization.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statements of our Group include the results of operations of the entities now comprising our Group during the Track Record Period (or where the entity was incorporated or established on a date later than January 1, 2015, for the period from the date of incorporation or establishment to December 31, 2017) as if the Reorganization was completed at the beginning of the Track Record Period. The consolidated statements of financial position of our Group as of December 31, 2015, 2016 and 2017 were prepared to present the consolidated state of affairs of the entities now comprising our Group as of the respective dates as if the Reorganization was completed at the beginning of the Track Record Period. All material intra-group transactions and balances have been eliminated on consolidation.

CRITICAL ACCOUNTING POLICIES ESTIMATES

The discussion and analysis of our financial condition and results of operation as included in this prospectus are based on our consolidated financial information prepared in accordance with the significant accounting policies, which are in conformity with IFRSs. See Note 2 to the Accountants' Report set forth in Appendix I to this prospectus for further details about our significant accounting policies. Accounting methods, assumptions and estimates that underlie the preparation of our consolidated financial information affect our financial condition and results of operation reported. Such assumptions that we believe to be reasonable, the results of which form the basis of judgments on our carrying amounts of assets and liabilities and our results. Results may be different under different assumptions or conditions.

The selection of critical accounting policies, the judgments 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 our consolidated financial information. We believe that the following accounting policies involve the most significant accounting judgments and estimates used in the preparation of our consolidated financial information.

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 us and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized 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) Service income

Service income is recognized when the relevant services are rendered.

(iii) Interest income

Interest income is recognized as it accrues using the effective interest method.

(iv) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that we will comply with the conditions attaching to them. Grants that compensate us for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate us for the cost of an asset are recognized as deferred income and consequently are effectively recognized in profit or loss over the useful life of the asset as other income.

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Trade and other payables

Trade and other payables are initially recognized at fair value, and are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(h)(i) set out in the Accountants' Report), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where we issue a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognized as deferred income within trade and other payables. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with Note 2(p)(ii) set out in the Accountants' Report if and when (i) it becomes probable that the holder of the guarantee will call upon us under the guarantee, and (ii) the amount of that claim on us is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognized, less accumulated amortization.

Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h) set out in the Accountants' Report).

- Buildings held for own use which are situated on leasehold land classified as held under operating leases (Note 2(g) set out in the Accountants' Report); 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 labor, 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.

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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 recognized 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 are as follows:

- Buildings and infrastructure Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion
- Machinery and equipment five-10 years
- Motor vehicles five-10 years
- Others five years

Both the useful life of assets and its residual value, if any, are reviewed annually.

No depreciation is provided in respect of construction in progress.

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated at cost less impairment losses (see Note 2(h) set out in the Accountants' Report). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction periods, to the extent that these are regarded as an adjustment to borrowing costs (see Note 2(s) set out in the Accountants' Report).

Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

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PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following table sets forth our consolidated statement of profit or loss and other comprehensive income with line items in absolute amounts and as percentages of our total revenue for the periods indicated:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Revenue	368,634	100.0	441,988	100.0	452,580	100.0
Cost of sales	<u>(195,357)</u>	<u>(53.0)</u>	<u>(219,799)</u>	<u>(49.7)</u>	<u>(200,634)</u>	<u>(44.3)</u>
Gross profit	173,277	47.0	222,189	50.3	251,946	55.7
Other net income	3,251	0.9	10,888	2.5	5,918	1.3
Selling and distribution expenses	(63,636)	(17.3)	(74,208)	(16.8)	(90,704)	(20.0)
General and administrative expenses	<u>(26,039)</u>	<u>(7.1)</u>	<u>(40,277)</u>	<u>(9.1)</u>	<u>(44,980)</u>	<u>(9.9)</u>
Profit from operation	86,853	23.6	118,592	26.8	122,180	27.0
Finance income	38,159	10.4	36,128	8.2	22,765	5.0
Finance costs	(67,744)	(18.4)	(39,952)	(9.0)	(28,609)	(6.3)
Net finance costs	<u>(29,585)</u>	<u>(8.0)</u>	<u>(3,824)</u>	<u>(0.9)</u>	<u>(5,844)</u>	<u>(1.3)</u>
Profit before taxation	57,268	15.5	114,768	26.0	116,336	25.7
Income tax	<u>(11,233)</u>	<u>(3.0)</u>	<u>(18,570)</u>	<u>(4.2)</u>	<u>(19,285)</u>	<u>(4.3)</u>
Profit for the year	<u>46,035</u>	<u>12.5</u>	<u>96,198</u>	<u>21.8</u>	<u>97,051</u>	<u>21.4</u>
Profit attributable to:						
Equity shareholders of the Company	44,879	12.2	95,073	21.5	96,820	21.4
Non-controlling interests	<u>1,156</u>	<u>0.3</u>	<u>1,125</u>	<u>0.3</u>	<u>231</u>	<u>0.1</u>

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Revenue

During the Track Record Period, we generated revenue from the sales of our pharmaceutical products, in particular, Shuanghuanglian-based cold medicines. The sales are recorded net of any trade discounts and sales related tax. Factors affecting our revenue are the sales volume and average selling price of our products.

Revenue by type of products

We produce and sell Shuanghuanglian Oral Solutions, Shuanghuanglian Injections, and other PCM and western medicine products such as Compound Ferrous Sulfate Granules and Flunarizine Hydrochloride Capsules. The following table sets forth a breakdown of our revenue by type of products, each expressed in the absolute amount and as a percentage of our total revenue, for the periods indicated:

	Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Shuanghuanglian-based medicines:						
Shuanghuanglian Oral Solutions (10ml)	144,176	39.1	212,416	48.1	190,735	42.1
Shuanghuanglian Oral Solutions (20ml)	<u>40,387</u>	<u>11.0</u>	<u>59,441</u>	<u>13.4</u>	<u>66,798</u>	<u>14.8</u>
Subtotal	184,563	50.1	271,857	61.5	257,533	56.9
Shuanghuanglian Injections	<u>109,007</u>	<u>29.6</u>	<u>88,745</u>	<u>20.1</u>	<u>92,837</u>	<u>20.5</u>
Subtotal	<u>293,570</u>	<u>79.6</u>	<u>360,602</u>	<u>81.6</u>	<u>350,370</u>	<u>77.4</u>
 Other products:						
Compound Ferrous Sulfate Granules	16,951	4.6	20,655	4.7	22,808	5.0
Flunarizine Hydrochloride Capsules	16,331	4.4	16,775	3.8	16,649	3.7
Others ⁽¹⁾	<u>41,782</u>	<u>11.3</u>	<u>43,956</u>	<u>9.9</u>	<u>62,753</u>	<u>13.9</u>
Subtotal	<u>75,064</u>	<u>20.4</u>	<u>81,386</u>	<u>18.4</u>	<u>102,210</u>	<u>22.6</u>
Total	<u><u>368,634</u></u>	<u><u>100.0</u></u>	<u><u>441,988</u></u>	<u><u>100.0</u></u>	<u><u>452,580</u></u>	<u><u>100.0</u></u>

(1) Including other PCM and western medicine products.

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During the Track Record Period, we generate a substantial portion of our revenue from the sales of Shuanghuanglian-based cold medicines. In 2015, 2016 and 2017, we derived 79.6%, 81.6% and 77.4% of our revenue, respectively, from sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections. The following tables set out the sales volume and average selling prices of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections for the years indicated:

	Year Ended December 31,		
	2015	2016	2017
	<i>(Liter)</i>		
Shuanghuanglian Oral Solutions			
Sales Volume (10ml)	3,046,466	4,083,024	2,844,132
Sales Volume (20ml)	987,344	1,282,931	1,244,145
Subtotal	4,033,809	5,365,955	4,088,278
Shuanghuanglian Injections			
Sales Volume (20ml)	1,834,561	1,404,726	1,310,173
	Year Ended December 31,		
	2015	2016	2017
	<i>(RMB)</i>		
Shuanghuanglian Oral Solutions			
Average Selling Price (10ml)	0.47	0.52	0.67
Average Selling Price (20ml)	0.82	0.93	1.07
Shuanghuanglian Injections			
Average Selling Price (20ml)	1.19	1.26	1.42

The total sales volume of our Shuanghuanglian Oral Solutions increased by approximately 33.0% from 2015 to 2016. In 2017, sales volume of our Shuanghuanglian Oral Solutions decreased by 23.8% from 2016. As a result for a series of wholesale price increases of our Shuanghuanglian Oral Solutions in 2016 and 2017, (i) a number of our distributors strategically increased their orders in the first half of 2016 in anticipation of subsequent wholesale price rises. The larger orders in the first half of 2016 resulted in reduced orders in the second half of 2016 and 2017; and (ii) a number of distributors determined to reduce orders with us to observe the market reaction to our price rises, particularly as to whether the retail price can be raised correspondingly while maintaining market acceptance. During the Track Record Period, sales volume of Shuanghuanglian Injections decreased in absolute terms, primarily due to a continuous decrease in sales volume throughout the Track Record Period, which in turn was the result of the change in government policy to tighten up regulation on the administration of intravenous infusion to patients. In response to NHFPC's tightened restriction on intravenous infusion, a considerable number of provinces have already restricted the application of intravenous infusion, which reduces patient's access and therefore the market demand to Shuanghuanglian Injections.

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Going forward, we expect the sales of Shuanghuanglian Oral Solutions to remain as our largest revenue contributor both in absolute terms and as a percentage of our total revenue. On the other hand, as the PRC government continues to implement strict restrictions on the clinical use of injections, we expect the sales of Shuanghuanglian Injections as a percentage of our total revenue to further decrease. Lastly, we expect the sales of our other products, including other PCM and western medicine products to further increase in absolute terms as we plan to devote substantial resource to promote the sales of these products. See “Business — Our Products — Our Other Products” for details of new products we plan to roll out in 2018, 2019 and 2020.

Revenue by sales channel

The following table sets forth a breakdown of revenue by different distribution channel, each expressed in absolute terms and as a percentage of our total revenue, for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Distributors ⁽¹⁾	357,686	97.0	423,904	95.9	435,529	96.2
Direct sales customers	5,911	1.6	11,509	2.6	17,051	3.8
OEM sales ⁽²⁾	5,037	1.4	6,576	1.5	—	—
Total revenue	368,634	100.0	441,988	100.0	452,580	100.0

(1) Represents our sales to our distributors as we do not sell directly to sub-distributors.

(2) Represents the sales of a specific dosage of our Shuanghuanglian Oral Solutions made under OEM arrangements which bear the brand of our OEM customers. We charged our OEM customers a fixed price. We ceased such OEM sales in December 2016.

During the Track Record Period, we generated the substantial majority of our revenue from sales to our distributors. Going forward, as we intend to continue to leverage on the local knowledge and resources of our distributors to promote the sales and distribution of our products, we expect our revenue from sales to distributors to increase in absolute terms in the future. On the other hand, as we plan to expand our in-house OTC medicines sales team to explore direct sales opportunities of our Shuanghuanglian Oral Solutions, an OTC medicine, to drugstore chains, we expect the sales to distributors as a percentage of our total revenue to decrease.

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Revenue by geographic location

The following table sets forth a breakdown of our revenue by geographic market, each expressed in absolute terms and as a percentage of our total revenue, for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Henan Province	125,588	34.1	152,419	34.5	164,443	36.3
Central China (except for Henan Province) ⁽¹⁾	85,922	23.3	93,045	21.1	93,965	20.8
Southeast China ⁽²⁾	65,164	17.7	80,126	18.1	82,399	18.2
Southwest China ⁽³⁾	39,902	10.8	51,005	11.5	48,441	10.7
Northwest China ⁽⁴⁾	39,677	10.8	50,354	11.4	45,366	10.0
Northeast China ⁽⁵⁾	12,381	3.3	15,039	3.4	17,966	4.0
Total revenue.	<u>368,634</u>	<u>100.0</u>	<u>441,988</u>	<u>100.0</u>	<u>452,580</u>	<u>100.0</u>

- (1) Our Central China market includes Hubei, Hunan, Jiangxi, Hebei and Shanxi provinces and Beijing and Tianjin.
- (2) Our Southeast China market includes Guangdong, Hainan, Shandong, Jiangsu, Anhui, Fujian, and Zhejiang provinces, Guangxi Zhuang Autonomous Region and Shanghai.
- (3) Our Southwest China market includes Yunnan, Guizhou and Sichuan provinces, Tibet Autonomous Region and Chongqing.
- (4) Our Northwest China market includes Qinghai, Gansu and Shaanxi provinces and Xinjiang Uyghur Autonomous Region, Ningxia Hui Autonomous Region and Inner Mongolia Autonomous Region.
- (5) Our Northeast China market includes Heilongjiang, Jilin and Liaoning provinces.

We strategically target Henan Province and our Central China market due to their large population and the geographical proximity of these markets. This, combine with the deep penetration we achieved in these markets, resulted in a significant revenue contribution of approximately 57.4%, 55.5% and 57.1% in 2015, 2016 and 2017, respectively. Going forward, we expect Henan Province and other parts of Central China to continue to be our largest revenue contributor as we plan to continue our strategic target on these markets. However, as we continue our nationwide expansion, we expect the revenue generated from our sales in markets other than Henan and Central China to increase as a percentage of our total revenue.

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Cost of sales

Our cost of sales primarily consists of (i) raw materials, (ii) packaging materials, (iii) direct labor, and (iv) manufacturing overhead. The table below sets forth a breakdown of our cost of sales by component, each expressed in the absolute amount and as a percentage of our total cost of sales, for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>					
Cost of raw materials	77,991	39.9	92,942	42.3	83,702	41.7
Cost of packaging materials	57,048	29.2	65,370	29.7	52,685	26.3
Direct labor	33,982	17.4	37,005	16.8	36,781	18.3
Manufacturing overhead	26,336	13.5	24,482	11.2	27,466	13.7
Total	<u>195,357</u>	<u>100.0</u>	<u>219,799</u>	<u>100.0</u>	<u>200,634</u>	<u>100.0</u>

Our cost of sales continued to increase in absolute terms during the Track Record Period as our business continued to expand.

Throughout the Track Record Period, our cost structure remained relatively stable. Cost of raw materials and packaging materials accounted for the substantial majority of our cost of sales during the Track Record Period. These costs are primarily affected by the sales volume of our products, the market price of our raw materials and the production cost of packaging materials. During the Track Record Period, our cost of raw materials as a percentage of our total cost of sales fluctuated, primarily due to (i) change in our product mix, as sales of our Shuanghuanglian Injections that have lower per unit cost of raw materials decreased while the sales of our Shuanghuanglian Oral Solutions that have higher per unit cost of raw materials increased; and (ii) increases in sales of other products in 2017, which have lower per unit raw materials cost. Meanwhile, the in-house production of key packaging materials enables us to control our per unit cost of packaging materials at a relatively stable level. Starting in 2017, the PRC governments strictly restrict the use of coal in industrial activities and promote the use of natural gas instead. As a result, we may experience increase in manufacturing overhead to the extent the cost of natural gas increases significantly. See “Risk Factors — Risks Relating to Our Business — We may incur higher cost of sales as a result of change in energy policy in China.” Going forward, we expect the costs of raw materials and packaging materials continued to be the major components of our cost of sales, while manufacturing overhead may become a larger component of our cost of sales.

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The following table sets forth the sensitivity analysis on the impact of changes in cost of raw materials on our cost of sales, gross profit and net profit during the Track Record Period. The sensitivity analysis below is in line with historical fluctuations of our cost of sales, gross profit and net profit due to fluctuations of cost of raw materials during the Track Record Period.

	For the Year Ended December 31,		
	2015	2016	2017
Change in the cost of sales if cost of raw materials increase/(decrease) by 10%	+-4.0%	+-4.2%	+-4.1%
Change in the gross profit if cost of raw materials increase/(decrease) by 10%	-+4.5%	-+4.2%	-+3.2%
Change in net profit if cost of raw materials increase/(decrease) by 10%	-+17.5%	-+8.9%	-+7.2%

Gross profit and margin

Our gross profit is primarily affected by the mix of our products, average selling price of our products and fluctuation in the costs of raw materials. In 2015, 2016 and 2017, our gross profit was RMB173.3 million, RMB222.2 million and RMB251.9 million, respectively, representing gross margin of 47.0%, 50.3% and 55.7%, respectively. Throughout the Track Record Period, our gross margin continued to increase as a result of increasing average selling prices of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections. Meanwhile, we have experienced an increase in per unit raw material costs as a result of higher raw material price, which partially offset the positive effect a higher average selling price has on our gross margin. The per unit packaging materials cost remained relatively stable during the Track Record Period.

Gross profit and gross margin by type of products

The following table sets forth a breakdown of our gross profit and gross margin by type of products for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>Margin (%)</i>	<i>RMB</i>	<i>Margin (%)</i>	<i>RMB</i>	<i>Margin (%)</i>
	<i>(in thousands, except for percentages)</i>					
Shuanghuanglian Oral Solutions	67,411	36.5	119,118	43.8	128,766	50.0
Shuanghuanglian Injections	59,981	55.0	51,388	57.9	58,949	63.5
Others ⁽¹⁾	45,885	61.1	51,683	63.5	64,231	62.8
Total	173,277	47.0	222,189	50.3	251,946	55.7

(1) Including other PCM and western medicine products.

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Among our product categories, the gross profit margin of our Shuanghuanglian Oral Solutions increased from 36.5% in 2015 to 43.8% in 2016 and further increased to 50.0% in 2017, while the gross profit margin of our Shuanghuanglian Injections increased from 55.0% in 2015 to 57.9% in 2016 and further increased to 63.5% in 2017, primarily as we raised the wholesale prices of both our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections in 2016 and 2017.

Other net income

Our other net income primarily consists of net material and scrap sales income, rental income, income or expenses in connection with financial guarantee issued, government grants and others. The table below sets forth a breakdown of our other net income by component, each expressed in the absolute amount and as a percentage of our other net income, for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Material and scrap sales income, net	2,046	62.9	2,327	21.4	1,679	28.4
Rental income	615	18.9	737	6.8	410	6.9
Financial guarantee issued	(959)	(29.5)	5,815	53.4	3,319	56.1
Government grants	210	6.5	210	1.9	210	3.5
Others	1,339	41.2	1,799	16.5	300	5.1
Total	<u>3,251</u>	<u>100.0</u>	<u>10,888</u>	<u>100.0</u>	<u>5,918</u>	<u>100.0</u>

Net material and scrap sales income we recorded was primarily attributable to the sales of excessive liquefied natural gas and liquid oxygen and cullet. During the Track Record Period, we procured liquefied natural gas and liquid oxygen for production of our products and sold excessive portion to independent third parties. We also procure glass for packaging of our products and sold cullet to independent third parties. In 2015, 2016 and 2017, respectively, our net material and scrap sales income amounted to RMB2.0 million, RMB2.3 million and RMB1.7 million, respectively, representing approximately 62.9%, 21.4% and 28.4% of our other net income for the respective period. The changes in our net material and scrap sales income during the Track Record Period were primarily in line with the sales volume of our products and the amount of raw materials consumed.

During the Track Record Period, we have issued several cross guarantees to banks in respect of banking facilities granted to certain independent third parties as part of our initiative to support the local economic development. When we issue a financial guarantee, a certain amount of liability and corresponding amount of expense will be recognized to take into account the potential payout. As the obligation guaranteed by us gradually matures without default, our potential payment obligation is considered to be reduced and other income are recorded on a monthly basis. In 2015, 2016 and 2017, we incurred expenses in connection with the issuance of financial guarantee of RMB1.0 million and recorded other income in connection with the issuance of financial guarantee of RMB5.8 million and RMB3.3 million, respectively, as some of the financial guarantees we issued were released. We do not intend to issue any financial guarantee after the Listing.

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Selling and distribution expenses

Our selling and distribution expenses primarily consist of commission, advertisement, wages and salaries, promotion expenses, damage, logistics fee, business, traveling, rental and others. In 2015, 2016 and 2017, our selling and distribution expenses amounted to RMB63.6 million, RMB74.2 million and RMB90.7 million, respectively, representing 17.3%, 16.8% and 20.0% of our revenue for the respective periods. The following table sets forth a breakdown of our selling and distribution expenses by component, each expressed in the absolute amount and as a percentage of our total selling and distribution expenses, for the periods indicated:

	For the Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>	<i>RMB</i>	<i>%</i>
	<i>(in thousands, except for percentages)</i>					
Commission	35,661	56.0	48,555	65.4	58,055	64.0
Advertisement	6,463	10.2	100	0.1	5,199	5.7
Wages and salaries	8,458	13.3	9,851	13.3	16,822	18.5
Promotion expense	2,582	4.1	4,260	5.7	755	0.8
Logistics fee	7,279	11.4	8,529	11.5	7,271	8.0
Others ⁽¹⁾	3,193	5.0	2,913	4.0	2,602	3.0
Total	63,636	100.0	74,208	100.0	90,704	100.0

Notes:

(1) Including damage, business, traveling, rental and others.

Throughout the Track Record Period, we continued to increase the commission rate we paid to our sales representatives, as we considered higher and performance-based commission rate that incentivizes our sales representatives to actively promote our products to our distributors and direct sales customers to be an effective way to drive the growth in sales of our major products, in view of our decade long history in the market and our strong brand recognition. In particular, we set up sales target for different types of products at different regions, and sales representatives who exceed the targets will receive various types of incremental sales commission on top of a base commission of 2% to 5% of the sales amount. In particular, we reward our sales representatives by paying them up to 80% of the sales price that exceeds our internal target price as commission. In 2015, 2016 and 2017, the average commission rate we paid to our sales representatives was 9.7%, 11.0% and 12.8%, respectively, of the sales amount. On the other hand, while we scaled back our spending on advertisement in 2016 in response to an increase in the commission rate, we increased our spending on advertisement in 2017 in order to further enhance our brand recognition. In addition, increase in wages and salaries we paid to our sales representatives also resulted an increase in our selling and distribution expenses in 2017. As a result, our selling and distribution expenses increased throughout the Track Record Period. Our selling and distribution expenses as a percentage of our total revenue decreased from 17.3% in 2015 to 16.8% in 2016 while increased to 20.0% in 2017.

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Going forward, as we continue to expand our sales and distribution network and strengthen our marketing efforts, we expect our selling and distribution expenses to increase in absolute terms and remain relatively stable as a percentage of our revenue in the future. In particular, as we rolled out Qingre Jiedu Oral Solutions (清熱解毒口服液) and Xiao'er Kechuanling Oral Solutions (小兒咳喘靈口服液) in January 2017 and July 2017 respectively, we plan to increase our spending on advertisement.

General and administrative expenses

Our general and administrative expenses primarily consist of wages and salaries, depreciation, consultant, taxation, impairment loss on assets, conference, research and development costs, business taxes and surcharges, bank charges and others. During the Track Record Period, our general and administrative expenses as a percentage of our revenue increased to 9.1% in 2016 from 7.1% in 2015 and further to 9.9% in 2017. The following table sets forth a breakdown of our general administrative expenses by component, each expressed in the absolute amount and as a percentage of our total general and administrative expenses:

	For the Year Ended December 31,					
	2015		2016		2017	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>					
Wages and salaries	12,111	46.5	15,078	37.4	13,682	30.4
Consultant ⁽¹⁾	497	1.9	11,762	29.2	13,937	31.0
Depreciation	4,446	17.1	5,498	13.7	5,039	11.2
Taxation	1,782	6.8	2,043	5.1	2,868	6.4
Conference	1,169	4.5	1,545	3.8	1,897	4.2
Impairment loss on assets	353	1.4	520	1.3	1,523	3.4
Research and development costs	208	0.8	501	1.2	3,157	7.0
Bank charges	359	1.4	66	0.2	131	0.3
Business Taxes and Surcharges	2,352	9.0	0.0	0.0	—	—
Others	2,762	10.6	3,264	8.1	2,746	6.1
Total	<u>26,039</u>	<u>100.0</u>	<u>40,277</u>	<u>100.0</u>	<u>44,980</u>	<u>100.0</u>

(1) Including our expenses incurred in connection with the Listing of RMB9.9 million and RMB13.9 million in 2016 and 2017, respectively.

Wages and salaries for our administrative personnel is a major component of our general and administrative expenses during the Track Record Period. However, wages and salaries as a percentage of our general and administrative continued to decrease during the Track Record Period, primarily due to the incurrence of expenses in connection with the Listing and the increase in our research and development spending in 2016 and 2017.

Going forward, apart from the expenses in connection with Listing expected to be incurred in 2018, we do not expect our general and administrative expense to increase significantly as a percentage of our revenue.

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Net finance costs

Our net finance costs represent finance income, which includes interest income derived from loans to related parties, guarantees, and bank deposits, less finance costs, which includes interest on bank loans and bills discount expense. The following table sets forth a breakdown of our net finance costs by component for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Finance income	38,159	36,128	22,765
Finance costs:			
Interest on bank loans	(42,389)	(39,606)	(28,609)
Bills discount expense	(25,355)	(346)	—
	(67,744)	(39,952)	(28,609)
Total	(29,585)	(3,824)	(5,844)

In 2015, 2016 and 2017, we recorded finance income of RMB38.2 million, RMB36.1 million and RMB22.8 million, respectively. Historically, Henan Fusen served as a funding vehicle of the Affiliates to take advantage of our stronger credit standing and cash flow. As a result, we obtained financing from the banks in the form of bank loans as well as Excess Bill Financing, and lent this money to the Affiliates in the form of interest bearing advances as well as interest free advances in certain circumstances. For the interest bearing advances, the Affiliates are responsible for the interest and expenses that are corresponding to our funding costs, and will pay such amounts to us. Such repayments are recorded as our finance income. Going forward, as we intend to cease serving as a funding vehicle for our Affiliates upon Listing, we do not expect to generate such finance income in the future.

In 2015, 2016 and 2017, we recorded finance costs of RMB67.7 million, RMB40.0 million and RMB28.6 million, respectively. Our finance costs decreased by 41.0% from RMB67.7 million in 2015 to RMB40.0 million in 2016 and further decreased by 28.4% to RMB28.6 million in 2017 as we ceased all the bills financing practices in June 2015. Going forward, as we have ceased serving as a funding vehicle for Affiliates, we do not expect to obtain similar level of financing from the banks and we expect our finance cost to continue to decrease.

INCOME TAX

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Income tax expense consists of current income tax and deferred income tax. Current income tax consists of PRC EIT generally at a rate of 25% that our subsidiaries pay on their taxable income. Henan Fusen, our subsidiary, was certified as a High New Technology Enterprise in Henan province and has been entitled to a preferential income tax rate of 15% since 2012 and such certificate will expire in August 2018. Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Our income tax increased from RMB11.2 million in 2015 to RMB18.6 million in 2016 and further to RMB19.3 million in 2017. Such changes in income tax

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were primarily due to changes in our taxable income. In 2015, 2016 and 2017, our effective tax rate was 19.6%, 16.2% and 16.6%, respectively, which were lower than the PRC statutory income tax rate of 25%, primarily attributable to the preferential income tax rate we are entitled. As of the Latest Practicable Date and during the Track Record Period, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

RESULTS OF OPERATIONS

Year ended December 31, 2017 compared to Year ended December 31, 2016

Revenue

Our revenue increased by 2.4% from RMB442.0 million in 2016 to RMB452.6 million in 2017, primarily due to (i) increases in sales of our other products and Shuanghuanglian Injections; and (ii) a decrease in sales of our Shuanghuanglian Oral Solutions.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions decreased by 5.3% from RMB271.9 million in 2016 to RMB257.5 million in 2017, mainly attributable to a decrease in sales volume from 5.4 million liters in 2016 to 4.1 million liters in 2017, partially off set by an increase in the average selling price. In 2016 and 2017, we raised the wholesale price of various packaging types of our Shuanghuanglian Oral Solutions several times. As a result, the average selling price of our Shuanghuanglian Oral Solutions increased from RMB0.52 per 10ml and RMB0.93 per 20ml in 2016 to RMB0.67 per 10ml and RMB1.07 per 20ml in 2017. These wholesale price hikes resulted in (i) a number of our distributors strategically increased their orders in the first half of 2016 in anticipation of subsequent wholesale price rises, which in turn resulted in reduced order in the second half of 2016 and 2017; and (ii) a number of distributors determined to reduce orders to observe the market reaction to our price rises. Revenue from sales of Shuanghuanglian Injections increased by 4.6% from RMB88.7 million in 2016 to RMB92.8 million in 2017, primarily due to an increase in the average selling price from RMB1.26 per 20ml in 2016 to RMB1.42 per 20ml in 2017, partially offset by a decrease in sales volume from 1.4 million liters in 2016 to 1.3 million liters in 2017, which in turn was attributable to the trend in government policy to continually tighten up regulation on the administration of intravenous infusion to patients. Revenue from sales of other products constituted a larger portion of our total revenue and increased by 25.6% from RMB81.4 million in 2016 to RMB102.2 million in 2017, primarily due to our continuous promotion of our other products such as Compound Ferrous Sulfate Granule (複方硫酸亞鐵顆粒).

Cost of Sales

Our cost of sales decreased by 8.7% from RMB219.8 million in 2016 to RMB200.6 million in 2017, primarily due to decreases in the sales volume of our Shuanghuanglian Oral Solutions and Shuanghuanglian Injections.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 13.4% from RMB222.2 million in 2016 to RMB251.9 million in 2017, and our gross profit margin increased from 50.3% in 2016 to 55.7% in 2017.

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Among our product categories, the gross profit margin of our Shuanghuanglian Oral Solutions increased from 43.8% in 2016 to 50.0% in 2017, while the gross profit margin of our Shuanghuanglian Injections increased from 57.9% in 2016 to 63.5% in 2017, both primarily due to increases in the average selling price.

Other net income

Our other net income decreased by 45.6% from RMB10.9 million in 2016 to RMB5.9 million in 2017. The decrease was primarily due to a decrease of RMB2.5 million in other net income in connection with financial guarantee issued, as a number financial guarantees we issued were released in 2017.

Selling and distribution expenses

Our selling and distribution expenses increased by 22.2% from RMB74.2 million in 2016 to RMB90.7 million in 2017, primarily due to an increase of RMB5.1 million in advertisement spending to enhance our brand recognition and an increase of RMB7.0 million in wages and salaries to motivate our sales representatives. As a percentage of our revenue, our selling and distribution expenses increased from 16.8% in 2016 to 20.0% in 2017.

General and administrative expenses

Our general and administrative expenses increased by 11.7% from RMB40.3 million in 2016 to RMB45.0 million in 2017. The increase was primarily attributable to (i) an increase of RMB2.2 million in consultant fee, which in turn primarily due to expenses incurred in connection with the Listing; and (ii) an increase of RMB2.7 million in research and development costs. As a percentage of our revenue, our general and administrative expenses increased from 9.1% in 2016 to 9.9% in 2017 primarily due to the consultant expenses of RMB13.9 million we incurred primarily in connection with the Listing.

Profit from operation

As a result of the foregoing, our profit from operation increased by 3.0% from RMB118.6 million in 2016 to RMB122.2 million in 2017. As a percentage of our revenue, our profit from operation increased from 26.8% in 2016 to 27.0% in 2017 despite an increase in our gross margin from 50.3% in 2016 to 55.7% in 2017, primarily due to (i) a higher performance-based commission rate paid to our sales representatives and higher spending on advertisement in 2017; (ii) the listing expenses of RMB13.9 million we incurred in 2017; and (iii) a number of the financial guarantees matured in 2017 which resulted in lower other net income.

Net finance costs

Our net finance cost increased by 52.8% from RMB3.8 million in 2016 to RMB5.8 million in 2017, primarily due to a decrease of RMB13.4 million finance income attributable to a decrease in the interest income derived from related-party loans as a result of repayment, partially offset by a decrease of RMB11.0 million in interest on bank loans as a result of the repayment of loans.

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Profit before taxation

As a result of the foregoing, our profit before taxation increased by 1.4% from RMB114.8 million in 2016 to RMB116.3 million in 2017.

Income tax

Our income tax expense increased by 3.9% from RMB18.6 million in 2016 to RMB19.3 million in 2017, primarily as a result of an increase in our taxable income. Our effective tax rate, calculated by dividing our income tax expense by our profit before income tax, increased from 16.2% in 2016 to 16.6% in 2017.

Profit for the year

As a result of the cumulative effect of the above factors, our profit for the year increased by 0.9% from RMB96.2 million in 2016 to RMB97.1 million in 2017. Our net profit margin decreased from 21.8% in 2016 to 21.4% in 2017 despite an increase in our gross margin from 50.3% in 2016 to 55.7% in 2017, primarily due to (i) a higher performance-based commission rate paid to our sales representatives and higher spending on advertisement in 2017; (ii) the listing expenses of RMB13.9 million in 2017; and (iii) a number of financial guarantees matured in 2017 which resulted in lower other income.

Year ended December 31, 2015 compared to Year ended December 31, 2016

Revenue

Our revenue increased by 19.9% from RMB368.6 million in 2015 to RMB442.0 million in 2016, primarily due to increases in both the sales volume and average selling price of our Shuanghuanglian-based cold medicine products, which in turn was the result of strong market demand despite the higher wholesale price we set.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions increased by 47.3% from RMB184.6 million in 2015 to RMB271.9 million in 2016, mainly attributable to an increase in sales volume from 4.0 million liters in 2015 to 5.4 million liters in 2016 and an increase of our average selling price from RMB0.47 per 10ml and RMB0.82 per 20ml in 2015 to RMB0.52 per 10ml and RMB0.93 per 20ml in 2016. In 2016, we raised the wholesale price of various packaging types of our Shuanghuanglian Oral Solutions several times, which resulted in higher average selling price in 2016 and a number of our distributors strategically increased their orders in the first half of 2016 in anticipation of subsequent wholesale price rises. Meanwhile, revenue from sales of Shuanghuanglian Injections decreased by 18.6% from RMB109.0 million in 2015 to RMB88.7 million in 2016, primarily due to a decrease in sales volume from 1.8 million liters in 2015 to 1.4 million liters in 2016, which in turn was attributable to the trend in government policy to tighten up regulation on the administration of intravenous infusion to patients. Meanwhile, revenue from sales of other products constituted a minor portion of our total revenue and remained relatively stable during this period.

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Cost of Sales

Our cost of sales increased by 12.5% from RMB195.4 million in 2015 to RMB219.8 million in 2016, primarily due to an increase in the sales volume of our Shuanghuanglian Oral Solutions, partially offset by a decrease in the sales volume of our Shuanghuanglian Injections.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by 28.2% from RMB173.3 million in 2015 to RMB222.2 million in 2016, and our gross profit margin increased from 47.0% in 2015 to 50.3% in 2016.

Among our product categories, the gross profit margin of our Shuanghuanglian Oral Solutions increased from 36.5% in 2015 to 43.8% in 2016, primarily attributable to an increase in the average selling price as well as sales volume of our Shuanghuanglian Oral Solutions that resulted in economies of scale. The gross profit margin of our Shuanghuanglian Injections increased from 55.0% in 2015 to 57.9% in 2016, primarily due to an increase in the average selling price.

Other net income

Our other net income increased by 234.9% from RMB3.3 million in 2015 to RMB10.9 million in 2016. The increase was primarily due to an increase of RMB6.8 million in other net income in connection with financial guarantee issued.

Selling and distribution expenses

Our selling and distribution expenses increased by 16.6% from RMB63.6 million in 2015 to RMB74.2 million in 2016, primarily due to an increase of RMB12.9 million in commission as a result of an increase in sales volume as well as an increase in the commission rate for our sale representatives to boost our sales. As a percentage of our revenue, our selling and distribution expenses decreased from 17.3% in 2015 to 16.8% in 2016. The decrease was primarily due to a significant decrease in our advertisement expenditure.

General and administrative expenses

Our general and administrative expenses increased by 54.7% from RMB26.0 million in 2015 to RMB40.3 million in 2016. The increase was primarily attributable to (i) an increase of RMB11.3 million in consultant fee incurred in connection with the Listing; (ii) an increase of RMB3.0 million in wages and salaries as a result of an increase in employee's wages; and (iii) an increase of RMB0.2 million in impairment loss on assets in relation to the retirement of assets in 2016, partially offset by a decrease of RMB2.4 million in business taxes and surcharges due to the re-categorization of certain of our income from business tax to value added tax as a result of the change of policy starting from May 1, 2016. As a percentage of our revenue, our general and administrative expenses increased from 7.1% in 2015 to 9.1% in 2016 primarily due to the expenses of RMB9.9 million we incurred in connection with Listing.

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Profit from operation

As a result of the foregoing, our profit from operation increased by 36.5% from RMB86.9 million in 2015 to RMB118.6 million in 2016. As a percentage of our revenue, our profit from operation increased from 23.6% in 2015 to 26.8% in 2016.

Net finance costs

Our net finance costs decreased by 87.1% from RMB29.6 million in 2015 to RMB3.8 million in 2016, primarily due to (i) a decrease of RMB25.0 million in bill discount expense as we ceased the Excess Bill Financing practice in June 2015 and (ii) a decrease of RMB2.8 million in interest on bank loans primarily due to the repayment of related-party loans, partially offset by a decrease of RMB2.0 million finance income primarily due to a decrease in the interest income derived from (x) related-party loans as a result of repayment, and (y) guarantee in deposits as a result of a decrease in bank's acceptance bills.

Profit before taxation

As a result of the foregoing, our profit before taxation increased by 100.4% from RMB57.3 million in 2015 to RMB114.8 million in 2016.

Income tax

Our income tax expense increased by 65.3% from RMB11.2 million in 2015 to RMB18.6 million in 2016, primarily as a result of an increase in our taxable income. Our effective tax rate, calculated by dividing our income tax expense by our profit before income tax, decreased from 19.6% in 2015 to 16.2% in 2016.

Profit for the year

As a result of the cumulative effect of the above factors, our profit for the year increased by 109.0% from RMB46.0 million in 2015 to RMB96.2 million in 2016. Our net profit margin increased from 12.5% in 2015 to 21.8% in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Historically, we have funded our operations primarily with net cash generated from our operations, capital contribution by investors and bank borrowings. As of December 31, 2017, we had RMB474.6 million in cash and cash equivalents, which were denominated in Renminbi. Our cash and cash equivalents primarily consist of cash in hand and bank deposits.

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The following table sets forth a summary of our consolidated statement of cash flows for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Net cash generated from operating activities	69,804	172,345	133,206
Net cash generated from/(used in) investing activities	67,185	327,666	455,514
Net cash used in financing activities	(131,625)	(288,190)	(358,370)
Net increase/(decrease) in cash and cash equivalents	5,364	211,821	230,350
Cash and cash equivalents at the beginning of year	27,205	32,569	244,390
Effect of foreign exchange rate changes	—	—	(119)
Cash and cash equivalents at the end of year . . .	32,569	244,390	474,621
Operating activities			

Cash generated from operations reflect our profit before income tax, adjusted for (i) the cash flow effects of certain income statement items, including depreciation of property, plant and equipment, amortization of intangible assets, finance costs, impairment losses on doubtful debts, and net loss on disposal of assets, and (ii) the effects on changes in our working capital, including changes in inventories, trade receivables, prepayments and other receivables, accruals and other payables, and trade payables.

Net cash generated from operating activities in 2017 was RMB133.2 million, which was primarily attributable to our profit before taxation of RMB116.3 million, adjusted to (i) add back the non-cash depreciation and amortization of RMB16.9 million and financial costs of RMB7.7 million which is accounted for as financing cash outflow; and (ii) deduct the increase in net financial guarantee deposits of RMB3.3 million. The amount was further adjusted by changes in itemized balances of working capital that have a positive effect on cashflow, including (i) an increase in accruals and other payables of RMB33.5 million primarily in connection with borrowing arrangements among us and the Affiliates; and (ii) an increase in trade and bills payables of RMB19.2 million, as well as changes in itemized balances of working capital that have a negative effect on cashflow, including (i) an increase in restricted guarantee deposits of RMB27.0 million in connection with the bills we issued to our suppliers; and (ii) an increase in trade receivables of RMB9.3 million due to an increase in our trade debtors, which in turn was the result of a more proactive collection policy we implemented in 2016.

Net cash generated from operating activities in 2016 was RMB172.3 million, which was primarily attributable to our profit before taxation of RMB114.8 million, adjusted to add back the non-cash depreciation and amortization of RMB15.9 million and deduct the increase in net financial guarantee issued of RMB5.8 million. The amount was further adjusted by changes in itemized working capital that have a positive effect on cashflow, including (i) an increase in accruals and other payables of RMB36.6

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million primarily in connection with borrowing arrangements among us and the Affiliates; (ii) a decrease in inventories of RMB5.9 million, primarily due to the increase in the sales volume of our Shuanghuanglian Oral Solutions; (iii) a decrease in prepayments and other receivables of RMB0.9 million, mainly due to a decrease in amounts due from related parties as a result of the repayment from related-parties; (iv) a decrease in trade receivables of RMB11.2 million due to a decrease in our bills receivables, which in turn was the result of the change in our policy to provide discount to customers to settle the purchase price using wire transfer; and (v) an increase in trade and bills payables of RMB2.8 million, primarily due to an increase in our procurement amount.

Net cash generated from operating activities in 2015 was RMB69.8 million, which was primarily attributable to our profit before taxation of RMB57.3 million, adjusted to add back (i) the non-cash depreciation and amortization of RMB15.8 million; and (ii) finance costs of RMB27.2 million which was accounted for as financing cash outflow. The amount was further adjusted by changes in itemized working capital that have a negative effect on cashflow, including (i) an increase in trade receivables of RMB26.9 million as our sales increased; (ii) an increase in prepayments and other receivables of RMB9.4 million, mainly in connection with the prepayments made for procurement of raw materials; (iii) an increase in inventories of RMB4.7 million primarily as a result of a decrease in the sales volume of Shuanghuanglian Injections; and (iv) a decrease in trade and bills payables of RMB2.6 million, primarily due to the large procurement of raw materials in 2014, as well as changes in itemized balances of working capital that have a positive effect on cashflow, including an increase in accruals and other payables of RMB19.7 million, primarily in relation to the borrowing arrangements among us and the Affiliates.

Investing activities

Our cash outflow from investing activities reflect loans to related parties, purchases of property, plant and equipment and pledged bank deposits. Our cash inflows from investing activities reflect proceeds from disposal of property, plant and equipment, interest received and loans repaid by related parties.

Net cash generated from investing activities in 2017 was RMB455.5 million, which was primarily attributable to (i) loans repaid by related parties of RMB459.0 million; and (ii) a decrease in pledged bank deposits of RMB300.0 million, which was partially offset by loans to related parties of RMB319.7 million.

Net cash generated from investing activities in 2016 was RMB327.7 million, which was primarily attributable to loans repaid by related parties of RMB867.0 million, which was partially offset by (i) pledged bank deposits of RMB300.0 million; and (ii) loans to related parties of RMB256.8 million.

Net cash generated from investing activities in 2015 was RMB67.2 million, which was primarily attributable to loans repaid by related parties of RMB426.0 million, which was partially offset by loans to related parties of RMB372.3 million.

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Financing activities

Our cash inflows from financing activities primarily include proceeds from bank and other loans, proceeds from bills payable under financing arrangement, and loan from related parties. Our cash outflows from financing activities primarily include repayment of bills payable in connection with the Excess Bill Financing arrangement, repayment of bank and other loans, payment of borrowing costs, dividends paid, bank deposit placed for bill payable under financing arrangement and repayment of loans to related parties.

Net cash used in financing activities in 2017 was RMB358.4 million, which was attributable to the following primary factors: (i) repayment of bank and other loans of RMB600.7 million; (ii) consideration paid to Fusen Shiye for the acquisition of the equity interest in Henan Fusen from Fusen Shiye of RMB92.0 million; (iii) repayment of loans from related parties of RMB92.3 million; and (iv) borrowing costs paid of RMB30.6 million, partially offset by proceeds from bank and other loans of RMB391.6 million.

Net cash used in financing activities in 2016 was RMB288.2 million, which was attributable to the following primary factors: (i) repayment of bank and other loans of RMB719.2 million; (ii) dividends paid of RMB157.3 million; and (iii) borrowing costs paid of RMB40.1 million, partially offset by proceeds from bank and other loans of RMB567.7 million.

Net cash used in financing activities in 2015 was RMB131.6 million, which was attributable to the following primary factors: (i) repayments of bills payable in connection with the Excess Bill Financing practice of RMB340.0 million; and (ii) repayments of bank and other loans of RMB774.4 million, partially offset by (i) proceeds from bank and other loans of RMB864.0 million; (ii) proceeds from bills payable under financing arrangement of RMB547.3 million obtained in connection with the Excess Bill Financing practice; and (iii) bank deposit placed for bill payable under financing arrangement of RMB386.0 million in accordance with the changes in our Excess Bills Financing practice.

COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

Our capital commitments during the Track Record Period were primarily relating to acquisition of property, plant and equipment. The following table sets forth the breakdown of our capital expenditures we had contracted for but not yet incurred as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Contracted for	11,570	—	4,348
Authorized but not contracted for	11,789	7,940	—
Total	23,359	7,940	4,348

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Operating lease commitments

We lease a number of land and buildings under non-cancellable lease agreements. The following table sets forth the future aggregate minimum lease payments in respect of our rented land and buildings under non-cancellable lease agreements as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Within one year	200	200	228
After one year but within five years	800	800	200
After five years	1,200	1,000	—
Total.	2,200	2,000	428

We are the lessee with respect to land use right from Nanyang Fusen under operating lease arrangements. Such leases run for an initial period of 20 years and are subject to renegotiation upon expiry of the lease. In 2017, the lease period has been revised to 3 years. None of our leases includes contingent rentals.

Other than the contractual obligations set forth above, we do not have any other long-term debt obligations, operating lease commitments, capital commitments or other long-term liabilities.

CAPITAL EXPENDITURES

We made capital expenditures, defined as expenditure on acquisition of property, plant and equipment and intangible assets of RMB27.8 million, RMB20.0 million and RMB9.1 million in 2015, 2016 and 2017, respectively. In the past, our capital expenditures consisted primarily of purchase of property, plant and equipment. During the Track Record Period, we financed our capital expenditure primarily with cash generated from our operating activities and proceeds from borrowings.

We currently plan to establish (i) an additional production facility for oral solutions in Xichuan, Henan Province, for which our expected capital expenditure is RMB150.0 million, and (ii) an intelligent warehouse and a new facility for initial and advanced processing of medical herbs in Xichuan, Henan Province, for which our expected capital expenditure is RMB80.0 million. We plan to fund these capital expenditures with our cash and cash equivalents, cash flow generated from our operating activities, bank borrowings, and proceeds from the Global Offering. See “Future Plans and Use of Proceeds — Use of Proceeds” for the portion of capital expenditure to be funded by the proceeds from the Global Offering.

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WORKING CAPITAL

The following table sets forth the details of our current assets and liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2015	2016	2017	2018
	<i>(in RMB thousands)</i>			
Current assets				
Inventories	106,633	100,779	100,506	97,173
Trade receivables	208,800	123,027	109,115	147,828
Prepayments and other receivables	787,961	176,714	41,515	46,347
Restricted guarantee deposits	20,202	—	26,992	11,930
Pledged bank deposits	—	300,000	—	—
Cash and cash equivalents	32,569	244,390	474,621	451,064
Total current assets	1,156,165	944,910	752,749	754,342
Current liabilities				
Trade and bills payables	172,522	126,734	119,698	114,325
Accruals and other payables	196,142	280,859	235,358	251,829
Bills payables under financing arrangement	20,000	—	—	—
Bank and other loans	616,662	571,492	360,000	265,000
Current taxation	11,481	15,543	16,922	19,465
Total current liabilities	1,016,807	994,628	731,978	650,619
Net current assets/(liabilities)	139,358	(49,718)	20,771	103,723

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Our net current assets increased from RMB20.8 million as of December 31, 2017 to RMB103.7 million as of April 30, 2018, primarily as a result of the repayment of outstanding bank borrowings.

We recorded net current liabilities of RMB49.7 million as of December 31, 2016 while we recorded net current assets of RMB20.8 million as of December 31, 2017, primarily due to an increase in cash equivalents as a result of receipt of proceeds from the pre-IPO investments.

We recorded net current liabilities of RMB49.7 million as of December 31, 2016 while we recorded net current assets of RMB139.4 million as of December 31, 2015, primarily due to a dividend of RMB163.7 million we declared and paid in 2016.

Our Directors confirm that our current cash and cash equivalents, anticipated cash flow from operations and proceeds from the Global Offering will be sufficient to meet our anticipated cash needs, including our working capital expenditure requirements, for at least the next 12 months from the date of this prospectus. We currently have no external financing plan other than the Global Offering and short term loans described in “— Indebtedness” below. After due consideration and discussion with our management and based on the above, the Sole Sponsor has no reason to believe that we cannot meet the working capital requirements for the 12-month period from the date of this prospectus.

Our Directors confirm that we did not have any material default in payment of trade and non-trade payables, bank borrowings, and other debt financing obligations and/or breaches of finance covenants during the Track Record Period and up to the Latest Practicable Date.

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INDEBTEDNESS

As of April 30, 2018, our total outstanding borrowings amounted to RMB355.0 million. Our borrowings during the Track Record Period were denominated in Renminbi. The following table sets forth a breakdown of our current and non-current borrowings:

	As of December 31,			As of
	2015	2016	2017	April 30, 2018
	<i>(in RMB thousands)</i>			
Current				
Borrowings from banks				
Secured	103,130	100,000	60,000	140,000
Unsecured.	488,011	321,000	300,000	125,000
Add: current portion of non-current borrowings	1,000	150,492	—	—
Other borrowings	<u>24,521</u>	<u>—</u>	<u>—</u>	<u>—</u>
Subtotal.	<u>616,662</u>	<u>571,492</u>	<u>360,000</u>	<u>265,000</u>
Non-current				
Borrowings from banks				
Secured	90,000	101,078	—	90,000
Unsecured.	60,600	78,600	31,600	—
Less: current portion of non-current borrowings	<u>1,000</u>	<u>150,492</u>	<u>—</u>	<u>—</u>
Subtotal.	<u>149,600</u>	<u>29,186</u>	<u>31,600</u>	<u>90,000</u>
Total	<u>766,262</u>	<u>600,678</u>	<u>391,600</u>	<u>355,000</u>

Our total outstanding borrowings amounted to RMB766.3 million, RMB600.7 million, RMB391.6 million and RMB355.0 million as of December 31, 2015, 2016 and 2017 and April 30, 2018, respectively. During the Track Record Period, the fluctuation of our outstanding borrowings was primarily correlated with the financing needs of the Affiliates.

As of December 31, 2015, 2016 and 2017 and April 30, 2018, most of our bank borrowings bore floating interest rates. The weighted average effective interest rates of our bank borrowings, which represent actual borrowing cost incurred during the period divided by weighted average bank borrowings that were outstanding during the period, which were 6.6%, 5.7%, 5.4% and 5.3% as of December 31, 2015, 2016 and 2017 and April 30, 2018, respectively.

As of April 30, 2018, the date being the Latest Practicable Date for the purpose of the indebtedness statement, we had unutilized banking facilities of RMB50.0 million.

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As of December 31, 2015, 2016 and 2017 and April 30, 2018, secured bank borrowings of RMB193.1 million, RMB201.1 million, RMB60.0 million and RMB230.0 million were secured by both our and related parties' property, plant and equipment and interests in leasehold land held for own use under operating lease. During the Track Record Period and up to the Latest Practicable Date, certain of unsecured bank borrowings were guaranteed by our related party. Our Directors confirm that all such personal guarantees made by related parties will be released upon the Listing.

The following table sets forth summaries of our current and non-current total borrowings by maturity as of the dates indicated:

	As of December 31,			As of
	2015	2016	2017	April 30,
	2018			
	<i>(in RMB thousands)</i>			
Within one year or on demand	616,662	571,492	360,000	265,000
After one year but within two years . .	149,600	20,023	—	90,000
After two years but within five years. .	—	3,242	31,600	—
After five years	—	5,921	—	—
Total	766,262	600,678	391,600	355,000

We are subject to certain restrictive covenants under our credit facilities with banks. These restrictive covenants include, among other things, limitation on the use of proceeds, requirements to provide notice or obtain consent for creation of new mortgages or charges, making capital expenditure exceeding certain percentage of our net assets, distribution of dividends, and certain significant corporate events. Moreover, some of the loan agreements that we entered into contain provisions where the bank may request to renegotiate the terms if there are material cross-defaults. During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that they are not aware of any breach of any of the covenants contained in our banking facilities constituting any event of default nor are they aware of any restrictions that will limit our ability to drawdown on our unutilized facilities.

During the Track Record Period and up to the Latest Practicable Date, we have never defaulted in repaying our bank borrowings or trade and other payables.

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MAJOR FINANCIAL RATIOS

The following table sets forth the major financial ratios for the periods or as of the dates indicated:

	For the Year Ended/As of December 31,		
	2015	2016	2017
Profitability			
Gross profit margin ⁽¹⁾	47.0%	50.3%	55.7%
Net profit margin ⁽²⁾	12.5%	21.8%	21.4%
Rates of Return			
Return on assets ⁽³⁾	2.8%	7.7%	9.2%
Return on equity ⁽⁴⁾	25.8%	60.0%	62.7%
Liquidity			
Current ratio ⁽⁵⁾	1.14	0.95	1.03
Gearing ratio ⁽⁶⁾	85.7%	89.0%	80.8%

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- (1) Gross profit margin is calculated by dividing gross profit for the relevant period by revenue for such period.
 - (2) Net profit margin is calculated by dividing profit for the relevant period by revenue for such period.
 - (3) Return on assets is calculated by dividing profit for the relevant period by average total assets at the end of the relevant period.
 - (4) Return on equity is calculated by dividing profit for the relevant period by average total equity at the end of the relevant period.
 - (5) Current ratio is calculated by dividing current assets by current liabilities.
 - (6) Gearing ratio is calculated by dividing total liabilities by total assets.

Gross profit margin

See “— Results of Operations” for further details.

Net profit margin

See “— Results of Operations” for further details.

Return on assets

Our return on assets ratio increased from 2.8% for the year ended December 31, 2015 to 7.7% for the year ended December 31, 2016, primarily due to an increase in our net profit. Our return on assets ratio further increased to 9.2% for the year ended December 31, 2017, primarily due to a decrease in our cash balance as a result of a dividend payment of RMB18.2 million.

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Return on equity

Our return on equity ratio increased from 25.8% for the year ended December 31, 2015 to 60.0% for the year ended December 31, 2016, primarily due to an increase in our net profit. Our return on equity ratio further increased to 62.7% for the year ended December 31, 2017, primarily due to a decrease in equity as a result of a dividend payment of RMB18.2 million.

Current ratio

Our current ratio decreased from 1.14 as of December 31, 2015 to 0.95 as of December 31, 2016, primarily as a result of a dividend payment. Our current ratio increased to 1.03 as of December 31, 2017, primarily due to the decrease in bank and other loans as a result of repayment. See “Financial Information — Working Capital” for detailed analysis on our net current assets and current liabilities positions.

Gearing Ratio

Our gearing ratio increased from 85.7% as of December 31, 2015 to 89.0% as of December 31, 2016, primarily due to the cash outflow in connection with dividend payment and reorganization in 2016, partially offset by the decrease in our bank loans as we gradually unwound the financing arrangements with the Affiliates. Our gearing ratio decreased to 80.8% as of December 31, 2017, primarily due to the cash proceeds we received from the pre-IPO investments and the decrease in bank loans.

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Inventories

Our inventories consist of raw materials and finished goods. The following table sets forth the components of our inventories as of the dates indicated:

	As of December 31,					
	2015		2016		2017	
	<i>RMB</i>	%	<i>RMB</i>	%	<i>RMB</i>	%
	<i>(in thousands, except for percentages)</i>					
Raw materials	46,533	43.6	43,697	43.4	43,238	43.0
Work in progress	21,407	20.1	21,895	21.7	11,398	11.3
Finished goods.	38,693	36.3	35,187	34.9	45,870	45.6
Total	106,633	100.0	100,779	100.0	100,506	100.0

Our inventories decreased from RMB106.6 million as of December 31, 2015 to RMB100.8 million as of December 31, 2016, primarily due to an increase in sales volume of our Shuanghuanglian Oral Solutions. Our inventories decreased from RMB106.6 million as of December 31, 2015 to RMB100.8 million as of December 31, 2016 and RMB100.5 million as of December 31, 2017, primarily due to a decrease in raw materials as a result of the seasonality of the procurement of our raw materials and a

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decrease in work in progress of as a result of the decrease in sales volume of Shuanghuanglian Oral Solutions. As of April 30, 2018, RMB74.5 million or 74.1% of our inventories as of December 31, 2017 had been subsequently consumed.

The following table sets forth our inventory turnover days for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
Inventory turnover days	195	172	183

Notes:

- (1) Inventory turnover days are derived by dividing the average inventory for the relevant period by cost of sales and multiplying by 365 days.

Our inventory turnover days increased from 172 days in 2016 to 183 days in 2017 as we stock up finished goods in anticipation of stronger demand for our products in the first Quarter of 2018. Our inventory turnover days decreased from 195 days in 2015 to 172 days in 2016, primarily due larger sales volume and quicker inventory turnover of our Shuanghuanglian Oral Solutions as our distributors put in larger order in anticipation of wholesale price hikes.

When our inventories are sold, we recognize the carrying amount of such inventories as our cost of sales or expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs. No inventory write-down was made as of December 31, 2015, 2016 or 2017. We aim to continue to actively manage our inventory turnover days in the future.

Trade receivables

The following table sets forth our trade and bills receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Bills receivable	170,906	80,808	52,418
Trade debtors	39,929	44,672	60,223
Less: allowance for doubtful debts	(2,035)	(2,453)	(3,526)
Total	208,800	123,027	109,115

Our customers, including distributors and drugstore chains, are usually granted credit terms up to three months to settle the purchase price.

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As of December 31, 2015, 2016 and 2017, our trade receivables amounted to RMB208.8 million, RMB123.0 million and RMB109.1 million, respectively. The decrease in trade receivables from December 31, 2016 to December 31, 2017 was primarily due to a decrease in bills receivable, partially offset by an increase in our trade debtors, which in turn was the result of a more proactive collection policy we implemented in 2016. The significant decrease in trade receivables from December 31, 2015 to December 31, 2016 was primarily due to a significant decrease in bills receivables as result of the change in our policy to provide discount to customers to settle the purchase price using wire transfer. We use certain of the bills we received from our customers to settle payment obligation with our suppliers. To the extent certain derecognition conditions, primarily the full transfer of credit risks that are attributable to the issuing banks, are not met, these bills will remain as our bills receivables. Correspondingly, the payment obligations for which we used these bills to settle will also remain our trade payables. See “— Trade payables” for further details. As of December 31, 2015, 2016 and 2017, the balance of bills that we used to settle payment obligation but has not been derecognized amounted to RMB97.6 million, RMB48.0 million and RMB25.9 million, respectively. As of April 30, 2018, RMB48.8 million and RMB24.0 million, or 86.1% and 45.7%, of our net trade debtors and bills receivables respectively as of December 31, 2017 had been subsequently settled.

The following table sets forth the turnover days of our trade receivables excluding bill receivables for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
Trade receivable turnover days	38	33	40

Note:

- (1) Trade receivables turnover days are calculated using the average of opening balance and closing balance of trade debtors for a year divided by turnover for the relevant year and multiplied by 365 days.

Our trade receivable turnover days decreased from 38 days in 2015 to 33 days in 2016, primarily due to our increasing effort in payment collection in 2016. Our trade receivable turnover days increased from 33 days in 2016 to 40 days in 2017, primarily due to the fact that we implemented a more proactive collection policy within the credit period in 2016 towards the end of a year.

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Aging analysis

The following table sets forth the aging analysis of our trade receivables that are neither past due nor impaired as of the dates indicated, presented based on the invoice date or date of revenue recognition, whichever comes earlier, net of allowance for doubtful debts:

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Current to three months	202,075	117,312	96,786
Three to six months	4,016	3,901	7,851
Six to 12 months	2,317	1,746	3,986
Over 12 months	392	68	492
Total	208,800	123,027	109,115

The credit terms agreed with customers are typically up to three months from the date of billing. No interests are charged on the trade receivables.

Impairment

Our management determines that impairment of trade and bills receivables on a regular basis. This estimate is based on the credit history of its customers and current market condition. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and bills receivables and thus the impairment loss in the period in which such estimate is changed. Our management reassesses the impairment of trade and other receivables at the end of reporting period. The following table sets forth the movement in the allowance for doubtful debts as of the respective dates:

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
On January 1	1,701	2,035	2,453
Impairment loss recognized	334	418	1,073
Total	2,035	2,453	3,526

Our trade debtors of RMB2.0 million, RMB2.5 million and RMB3.5 million as of December 31, 2015, 2016 and 2017, respectively, were individually determined to be impaired. Such individually impaired receivables related to customers for which management assessed that only a portion of the receivables are expected to be recovered. As a result, specific allowances for doubtful debts of RMB2.0 million, RMB2.5 million and RMB3.5 million were recognized as of December 31, 2015, 2016 and 2017. We do not hold any collateral over these balances.

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Trade receivables that are past due

The following table sets forth the aging analysis of our trade receivables that are neither individually nor collectively considered to be impaired as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Neither past due nor impaired	203,154	118,029	98,826
Less than three months past due	3,361	3,525	6,835
More than three months but less than nine months past due	1,999	1,405	3,340
More than nine months past due	286	68	114
Total	208,800	123,027	109,115

We consider an amount that is not paid on schedule pursuant to the agreement with us to be past due. As of December 31, 2015, 2016 and 2017, the amounts past due but not impaired of our trade receivables were RMB5.6 million, RMB5.0 million and RMB10.3 million, respectively, accounting for 2.7%, 4.0% and 9.1% of our total gross trade receivables, respectively. Such receivables relate to independent customers that have a good track record with us. Our management believes that no impairment allowance is necessary in respect of these balances based on our past experience as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Prepayments and other receivables

The following table sets forth our prepayments and other receivables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Amounts due from related parties	765,645	152,122	12,477
Prepayments to suppliers	7,293	1,986	5,438
Other receivables	15,023	22,606	23,600
Total	787,961	176,714	41,515

During the Track Record Period, amounts due from related parties were the major component of our prepayments and other receivables. Our prepayments and other receivables decreased by RMB611.2 million to RMB176.7 million as of December 31, 2016 from RMB788.0 million as of December 31, 2015, primarily due to the decrease in amounts due from related parties as a result of repayment of related-party loans by our related parties. Our prepayments and other receivables further decreased by RMB135.2 million to RMB41.5 million as of December 31, 2017 from RMB176.7 million as of

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December 31, 2016, primarily due to a decrease in amounts due from related parties. The amounts due from related parties of RMB12.5 million as of December 31, 2017 was fully repaid on January 26, 2018. Our prepayments and other receivables do not contain impaired assets.

Restricted guarantee deposits

Our restricted guarantee deposits represent initial guarantee deposits we made with the Endorsing Banks for bank acceptance notes. Our restricted guarantee deposits decreased from RMB20.2 million as of December 31, 2015 to nil as of December 31, 2016, as we ceased the Excess Bill Financing practice in June 2015. See “Business — License, Regulatory Approvals and Compliance Record — Bill Financing” for further details. Our restricted guarantee deposits increased from nil to RMB27.0 million as of December 31, 2017 as a result of an increase in the guarantee in deposits which in turn was the result of an increase in our bills payables due to our suppliers.

Bills payables

In 2015, our bills payable consists primarily of bank bills issued in connection with the Excess Bill Financing. Our bills payable amounted to nil both as of December 31, 2015 and 2016, as we ceased the Excess Bill Financing practice in June 2015 and settled all the outstanding amount on December 15, 2015. See “Business — Bill Financing” for more details. In 2017, we settled the purchase price paid to our supplier by regular use of bank acceptance note in an amount that matches the underlying contracts. As a result, our bills payables increased to RMB27.0 million as of December 31, 2017. As of December 31, 2015, 2016 and 2017, the total amount of funds obtained from Excess Bill Financing was RMB561.0 million, nil and nil, respectively.

Trade payables

Our trade payables mainly relate to the procurement of raw materials. Our suppliers generally granted us credit terms up to six months during the Track Record Period. Our trade payables decreased by RMB45.8 million from RMB172.5 million as of December 31, 2015 to RMB126.7 million as of December 31, 2016 as we voluntarily shorten our payment cycle to our suppliers. Our trade payables further decreased by RMB34.0 million from RMB126.7 million as of December 31, 2016 to RMB92.7 million as of December 31, 2017 primarily due to a decrease in trade payables due to our suppliers as a result of seasonality of the procurement of our materials.

We use certain of the bills we received from our customers to settle payment obligation with our suppliers, and these payment obligations remain to be our trade payables if certain financial assets derecognition conditions cannot be met. See “— Trade Receivables” for further details. As of December 31, 2015, 2016 and 2017, trade payables of this nature amounted to RMB97.6 million, RMB48.0 million and RMB25.9 million, respectively.

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The following table sets forth our trade payables turnover days for the periods indicated:

	For the Year Ended December 31,		
	2015	2016	2017
Trade payables turnover days ⁽¹⁾	140	128	132

Note:

- (1) Trade payables turnover days are calculated using the average of opening balance and closing balance of trade payables for a year after deducting the amount that was settled with bills that were not derecognize, divided by cost of sales for the relevant year and multiplied by 365 days.

During the Track Record Period, our trade payable turnover days were in line with the credit period granted by our suppliers. As of April 30, 2018 RMB52.2 million of our trade payables as of December 31, 2017 had been subsequently settled.

The following table sets forth the aging analysis of our trade payables as of the dates indicated, based on the date of goods or services that have been acquired in the ordinary course of business from suppliers.

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Within three months	155,773	103,813	98,874
Three to six months	6,418	8,199	6,483
Six to 12 months	6,291	7,742	7,825
More than one year	4,040	6,980	6,516
Total	172,522	126,734	119,698

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we had not defaulted in payment of trade and non-trade payables.

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Accruals and other payables

The following table sets forth a breakdown of our accruals and other payables as of the dates indicated:

	As of December 31,		
	2015	2016	2017
	<i>(in RMB thousands)</i>		
Receipts in advance	17,726	29,005	29,381
Accrued charges	4,229	2,020	3,597
Amounts due to related parties	17,308	77,790	6,567
Dividends payable	3,189	9,791	3,189
Other tax payables	14,995	33,174	46,771
Salary, bonus and welfare payable	49,605	60,445	75,527
Payables to contractors and equipment suppliers	12,159	10,110	14,648
Deposits from sale staff	5,480	5,565	5,709
Listing expense payables	—	3,439	6,467
Deferred financial guarantees issued	9,134	3,319	—
Transportation fee payables	1,593	3,676	2,215
Interests payable	3,852	3,523	1,574
Housing fund collected from staff	4,399	4,399	4,302
Fund from local finance bureau	16,307	5,887	5,887
Payables to suppliers	11,007	10,919	10,526
Others	25,159	17,797	18,998
Total	196,142	280,859	235,358

Our accruals and other payables increased by RMB84.7 million from RMB196.1 million as of December 31, 2015 to RMB280.9 million as of December 31, 2016. Such increase was primarily due to (i) increases in amounts due to related parties in connection with the borrowing arrangements among us and the Affiliates, under which advances between Affiliates are made through us, and (ii) increases in accrued charges due to the increase in the commission we paid to our sale representatives. Our accruals and other payables decreased by RMB45.5 million from RMB280.9 million as of December 31, 2016 to RMB235.4 million as of December 31, 2017. Such decrease was primarily due to decreases in amounts due to related parties in connection with the borrowing arrangements among us and the Affiliates, under which advances between Affiliates are made through us.

As of the Latest Practicable Date, all the amounts due to related parties have been settled.

In view of Article 73 of the *General Lending Provisions* (《贷款通则》) which provides that the People's Bank of China shall impose a fine on the lending party of between one time and five times of its illegal proceeds of borrowing and lending or borrowing and lending in a disguised manner without authorization by enterprises, and concurrently, abolish the lending activity, our PRC Legal Adviser is of the view that the possibility of the administrative penalty based on *General Lending Provisions* against the borrowing and lending activities between us and our related parties is remote on the basis that: (i) such lending and borrowing activities are not our business and do not fall into the invalid contract

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circumstance regulated in the *PRC Contract Law* (《中華人民共和國合同法》) and *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》) (the “**Provisions on Private Lending**”); (ii) the interest rate of the loan obtained from related parties do not exceed 24% per annum. According to the Provisions on Private Lending, where the lender requests the borrower to pay the agreed interest (the annual interest rate do not exceed 24%), the people's court shall support such request; (iii) it is mentioned in the *Supreme People's Court Answering Media's Questions on Private Lending* in August 2015 that, the PRC Property Law (《中華人民共和國物權法》) in 2007 authorize the property owners to dispose their property, including lending; should the property owners have no rights to dispose their property based on the *General Lending Provisions*, such stipulation would contradict with the PRC Property Law; and (iv) those borrowings and lendings have already been settled, and we had never received any notice of claim or penalty relating thereto.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. Except as disclosed above, we also have not entered into any other commitments to guarantee the payment obligations of third parties. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or research and development services with us.

RELATED PARTY TRANSACTIONS

Details of our transactions with related parties during the Track Record Period are set out in Note 29 to the Accountants' Report set out in Appendix I to this prospectus.

Among all the transactions with the related parties, Henan Fusen historically served as a funding vehicle for the Affiliates and made a substantial amount of loans to the Affiliates. As of December 31, 2015, 2016 and 2017, outstanding balance of the loans to these Affiliates amounted to RMB765.6 million, RMB152.1 million and RMB12.5 million. These amounts were accounted for as our other receivables. To finance these loans, we borrowed from banks or conduct Excess Bill Financing, therefore recorded substantial balance of bank borrowings and bills payables. See “Business — License, Regulatory Approvals and Compliance Record — Bill Financing” for further details on the Excess Bill Financing practices in the past. The interest-bearing loans we provided to these Affiliates bore an annual interest rate largely corresponding to the interest rate on our funding cost. As a result, we recorded finance income from these transactions of RMB29.9 million, RMB35.8 million and RMB21.3 million as of December 31, 2015, 2016 and 2017, representing 78.3%, 99.1% and 93.7% of our total finance income for the respective years. Apart from these loans, we also provided interest-free advances to certain of the Affiliates from time to time.

These loans was settled on January 26, 2018. We do not intend to serve as a funding vehicle for the Affiliates upon Listing.

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NO OTHER OUTSTANDING INDEBTEDNESS

Save as disclosed above, we did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other contingent liabilities or any covenant in connection therewith as of April 30, 2018, being our indebtedness statement date. After due and careful consideration, our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our indebtedness since April 30, 2018.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Credit risk

Our credit risk is primarily attributable to trade and other receivables. Our 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. Trade receivables are normally due within one to three months from the date of billing. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, we do not obtain collateral from customers.

Our 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. We have no concentrations of credit risk in view of our large number customers. We did not record significant bad debts losses during the Track Record Period.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position after deducting any impairment allowance. Except for the financial guarantees given by us as set out in Note 28(c) to the Accountants' Report set out in Appendix I to this prospectus, we do not provide any other guarantees which would expose us to credit risk. The maximum exposure to credit risk in respect of these financial guarantees as of December 31, 2017 is disclosed in Note 28(c).

Liquidity risk

Individual operating entities within our Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. Our policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. See Note 27(b) to the Accountants' Report set out in Appendix I to this prospectus for further details.

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Interest rate risk

Our interest rate risk arises primarily from bank loans and other borrowings. Borrowings issued at variable rates and at fixed rates expose us to cash flow interest rate risk and fair value interest rate risk respectively. See Note 27(c) to the Accountants' Report set out in Appendix I to this prospectus for further details.

Currency risk

We had not been exposed to any currency risk because we have no foreign currency transactions for the years ended December 31, 2015, 2016 and 2017.

LISTING EXPENSES

Our 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) incurred or to be incurred in relation to the Global Offering are approximately RMB61.2 million, of which RMB33.7 million was or will be charged as general and administrative expenses to our consolidated statement of profit or loss and other comprehensive income and RMB27.5 million was or will be charged against equity, in accordance with International Accounting Standard 32, Financial Instruments: Presentation (“IAS 32”). Pursuant to such accounting standard, 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, which do not relate to the offering of new Shares are charged to the consolidated statement 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 the number of new Shares issued relative to the total number of Shares in issue and listed on the Stock Exchange.

For the years ended December 31, 2016 and 2017, we recognized approximately RMB9.9 million and RMB13.9 million respectively of listing expenses as other expenses. From January 1, 2018 up to the Latest Practicable Date, we incurred listing expenses of RMB6.5 million.

We expect to incur an additional RMB30.8 million of 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) after the Latest Practicable Date. We estimate that listing expenses of approximately RMB9.8 million, representing the portion of the 75% of the fees for professional advisors and other expenses incurred or to be incurred after December 31, 2017 will be charged to our consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2018. Our estimated listing expense of approximately RMB27.5 million, including (i) underwriting commission of RMB10.3 million, (ii) the discretionary incentive fees in Global Offering of RMB8.2 million and (iii) 25% of the fees for professional advisors and other expenses of RMB9.0 million, incurred or to be incurred after December 31, 2017, is expected to be charged against equity upon the Listing and issuance of new Shares.

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DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. Our Directors currently intend to declare a dividend of no less than 10% of our distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that we must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our result of operations;
- our cash flows;
- our financial condition;
- our Shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- the payment by our subsidiaries of cash dividends to us; and
- other factors the Board may deem relevant.

During the Track Record Period, we did not declare or pay any dividend. As of December 31, 2015, 2016 and 2017, dividends of RMB14.0 million, RMB163.7 million and RMB18.2 million were declared and paid or payable by Henan Fusen, our subsidiary.

DISTRIBUTABLE RESERVES

Our Company is a holding company of the Group and was incorporated on January 18, 2013 in the Cayman Islands. As of December 31, 2017 we did not have any material distributable reserve.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial and trading position or prospects since December 31, 2017, and there is no event since December 31, 2017 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

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UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets is prepared in accordance with paragraph 4.29 of the Listing Rules and is set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets attributable to equity shareholders of the Company as if it had taken place on December 31, 2017. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at December 31, 2017 or at any future dates.

	Consolidated net tangible assets attributable to equity shareholders of the Company as at December 31, 2017	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
	<i>(Note i)</i>	<i>(Note ii)</i>		<i>(Note iii)</i>	<i>(Note iv)</i>
					<i>Equivalent to</i>
Based on an Offer Price of HK\$2.00 per Share	179,082	293,714	472,796	0.59	0.72
Based on an Offer Price of HK\$3.00 per Share	179,082	450,006	629,088	0.79	0.96

Notes:

- (i) The consolidated net tangible assets attributable to equity shareholders of the Company as at December 31, 2017 is based on the consolidated net assets of our Company of RMB182,777,000 as at December 31, 2017 after deduction of non-controlling interests of RMB2,212,000 and intangible assets of RMB1,483,000, as shown in the Accountants' Report as set out in Appendix I in this prospectus.
- (ii) The estimated net proceeds from the Global Offering are based on the Offer Shares and the estimated Offer Prices of HK\$2.00 and HK\$3.00, respectively, after deduction of the underwriting fees and related expenses payable by our Company and does not taken into account any Shares that may be issued upon exercise of Over-allotment Option and the options that may be granted under the Share Option Scheme. The estimated net proceeds from the Global Offering is converted into Renminbi at an exchange rate of HK\$0.81835 to RMB1 published by PBOC prevailing on June 19, 2018. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rate or at all.
- (iii) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments for the estimated net proceeds from the Global Offering payable to our Company as described in note (ii) and on the basis that 800,000,000 Shares were in issue assuming that the Global Offering was completed on December 31, 2017

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(including Shares in issue as of the Date of this prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalization Issue) without taking into account of any Shares which may be issued upon exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme.

- (iv) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$0.81835 to RMB1 published by PBOC prevailing on June 19, 2018. No representation is made that Reminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rate or at all.
- (v) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group subsequent to December 31, 2017.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As of the Latest Practicable Date, our Directors confirmed that there are no circumstances that will give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO SIGNIFICANT INTERRUPTIONS

Our Directors confirm that there have been no interruptions in our business that may have a material adverse effect on our financial position and results of operations in the 12 months period prior to the Latest Practicable Date.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business — Growth Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$2.50 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$454.4 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming the Over-allotment Option is not exercised.

In the event the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$2.50 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we will receive additional net proceeds of approximately HK\$526.0 million.

If the Offer Price is fixed at HK\$3.00 per Offer Share (being the high end of the Offer Price range stated in this prospectus), we will receive additional net proceeds of (i) approximately HK\$95.5 million, assuming the Over-allotment Option is not exercised; and (ii) approximately HK\$109.8 million, assuming the Over-allotment Option is exercised in full.

If the Offer Price is fixed at HK\$2.00 per Offer Share (being the low end of the Offer Price range stated in this prospectus), the net proceeds we receive will be reduced by (i) approximately HK\$95.5 million, assuming the Over-allotment Option is not exercised; and (ii) approximately HK\$109.8 million, assuming the Over-allotment Option is exercised in full.

We intend to use the net proceeds of the Global Offering for the following purposes:

- approximately 30%, or HK\$136.3 million, will be used for our expansion plan. See “Business — Production — Expansion Plan” for further details. We expect that of this amount;
- approximately 20%, or HK\$90.9 million, will be used for the establishment of production facilities with production lines for oral solutions in Xichuan County, Henan Province. We expect to utilize this amount on a pro rata basis in accordance our expansion plan.

When the new production lines for oral solution is in full operation which is expected to be in 2020, our annual designed production capacity of oral solution is expected to increase from approximately 4.2 million liters to 6.5 million liters. The incremental production capacity supports our revenue growth by capturing the expected growth in demand of Shuanghuanglian Oral Solutions in China, which, according to the Frost & Sullivan Report, is expected to grow in a CAGR of 12.4% from 2017 to 2022.

While historically we have implemented a 2-shift production schedule from time to time in response to spike in orders we received, we consider the establishment of new production facility serves our long-term interest and support our long-term development better than increasing the output at our current production facilities through a 2-shift

FUTURE PLANS AND USE OF PROCEEDS

production schedule. With the newly established production facilities, we may employ state-of-the-arts automated equipment to strengthen operational efficiency and quality control, thereby enhance our profitability. In particular, we plan to employ advanced automated production lines in our new production facilities. As compared with the production lines we currently use, the new production lines with more advanced production process and techniques will have the following benefits (a) lower raw materials loss during production process, (b) higher production yield rate and lower defect rate, (c) fewer number of employees in production process, (d) lower power consumption, and (e) longer intervals between maintenance and clearing and shorter time required for maintenance and clearing. As a result, we expect the use of these new production facilities and equipment will reduce the per unit costs of our products as compared with our current production facilities. In particular, based on our current estimation, given the same production output and with everything else being equal, the new production facilities and equipment to reduce our raw materials costs by approximately 10%, staffing costs by approximately 50% and energy costs by approximately 15% as compared with our current production facilities.

The benefit of automation and fewer employees will be magnified with larger production output. We estimate that we will incur an additional RMB22 million a year if we plan to increase our production capacity by implementing a 2-shift production schedule on a regular basis by increasing our staff members involved in the production processes from 594 as of December 31, 2017 to approximately 1,000. Furthermore, we may experience difficulty in recruiting sufficient skilled employees to carry out a regular 2-shift production schedule as we are not located in regions where skilled labors are in abundant supply, and we, which in turn may result in product quality issue.

In view of these benefits, we may also consider gradually expand the new production facilities to cope with the evolving technologies and production and quality control and achieve greater economies of scale and operational efficiency.

We expect to start procuring the land used for the new production facilities in September 2018 and commence the construction work in January 2019. We expect the construction work to be completed by the end of 2019 and the production facilities to be fully ramped up by the end of 2020.

- approximately 10%, or HK\$45.4 million, will be used for the establishment of an intelligent warehouse and new facilities for initial and advanced processing of medicinal herbs in Xichuan County, Henan Province. We expect to utilize this amount on a pro rata basis in accordance our expansion plan.

Our new intelligent warehouse and new facilities for initial and advanced processing of medicinal herbs are expected to be in full use in 2020. We believe the newly established intelligent warehouse and new facilities for initial and advanced processing of medicinal herbs will enable us to achieve lower costs in managing our inventory and enhance our production efficiency, thereby enhancing our profitability. Based on the current design, the intelligent warehouses to be established will enable us to achieve the following: (i) real time and precise monitoring and management of inventory, including raw materials as well as finished products, (ii) shorter time for sortation and delivery to production

FUTURE PLANS AND USE OF PROCEEDS

facilities, and (iii) fewer number of employees involve in warehouse and inventory management. As a result, we expect our intelligent warehouses to (i) facilitate a more efficient and precise inventory management and therefore better liquidity management; (ii) shorten our production process through a more efficient delivery schedule and therefore enhance our operational efficiency; and (iii) reduce our staffing costs by approximately 50% as compared with our common warehouses. The new intelligent warehouse also enhance the traceability of our raw materials by clearly documenting the source of raw materials and matching the batch of raw materials and the batch of products, which is consistent with the regulatory advocacy for the informatization of the medicine manufacturing processes. In addition, the capacity of our current warehouses can only satisfy our need based on our current production capacity. A new warehouse with larger capacity is therefore necessary to cope with our production capacity expansion plan as we expect that extra storage space of 1,350 square meters for raw materials and 1,680 square meters for work in progress and finished goods will be required as a result of the establishment of the additional production facilities for oral solutions and expected increase of sales volume of our products. On the other hand, the new facilities for advanced and initial processing also facilitate us in minimizing raw materials loss during production process and is expected to lower our per unit raw material costs by approximately 10%.

As our current warehouses and storage facilities were established more than a decade ago, the cost for upgrading these facilities would not be considerably lower than establishing a new one. The newly established intelligent warehouse and facilities for initial and advanced processing also facilitates us in integrating the inventory replenishing and raw material processing process, which cannot be achieved by upgrading our current warehouses and storage facilities due to space and design constraints.

We expect to start procuring the land used for the new production facilities in September 2018 and commence the construction work in January 2019. We expect the construction work to be completed by the end of 2019 and the production facilities to be fully operational by the end of 2020.

- approximately 10%, or HK\$45.4 million, will be used for advertising and marketing of our products;
- approximately 10%, or HK\$45.4 million, will be used for expansion of our existing marketing and distribution networks to increase the level of our market penetration to cover more end-customers, such as county medical institutions and community and rural healthcare centers, and accordingly increase our market share, including:
 - the recruitment of sale representatives to enhance the management of our distributors and consolidate our relationship with hospitals, medical institutions and drugstores; and
 - the addition of our representative offices to expand our geographic coverage for marketing services, with a focus of expansion in Shandong Province, Sichuan Province etc. in the PRC;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10%, or HK\$45.4 million, will be used to continue our research and development activities, especially for the funding of our research projects we conduct in collaboration with external partners. These projects includes: (i) development of products including Yinhua Lozenges (銀花含片) and Tiepi Shihu Tablets (鐵皮石斛片劑), all of which are expected to be launched in the following years, (ii) generic consistency evaluation of generic drugs including Flunarizine Hydrochloride Capsules (鹽酸氟桂利嗪膠囊), Metformin Hydrochloride Sustained Release Tablets (鹽酸二甲雙胍緩釋片) and Ranitidine Hydrochloride Capsules (鹽酸雷尼替丁膠囊) that are currently under production in accordance with requirements by regulations in the PRC which provides that the generic consistency evaluations have to be completed after the production permit is granted, (iii) the conversion of prescription drugs to OTC drugs including Yanning Capsules (炎寧膠囊), the process of which involve a conversion evaluation test that requires further research and development expenditure, (iv) exploratory research for preparing future application for the qualifications and certificate to produce Chinese medicine formula granules (中藥配方顆粒) and (v) development of PCM granules and other PCM medicines and dietary supplement products.
- approximately 15%, or HK\$68.2 million, will be used for merger and acquisition of manufacturer of PCM decoction pieces and granules or other western medicines for therapeutic areas that are similar to our current focus, so as to broaden our product offering and strengthen our competitive edge. In particular, we believe that the broader range of products with similar therapeutic areas and potential customers enable us to achieve synergies by leveraging our current brand name for the target customers and our comprehensive channel coverage and long-term collaboration with various distributors. The pre-processing of medicinal herbs to be used in our PCM injections and oral solutions can be applied to the production process of PCM decoction pieces while we are also producing certain types PCM granules. As a result, we expect that the acquisition of these types of companies can also create synergies in terms of production techniques and improved economies of scale. For example, we currently have the production permit of one type of PCM granules and the relevant production techniques and facilities, and the acquisition of additional production permit of PCM granules will enable us to increase the utilization rate of such facilities without incurring substantial upfront investment, thereby achieving synergies in terms of production techniques and improved economies of scale. Furthermore, the PCM granules market has been dominated by a few industry players, and in expectation of the loosening of regulatory framework we believe that there will be market potential for new entrants that offer PCM granules for different therapeutic areas and price range, considering the current market acceptance of PCM granules due to its convenience. In particular, provinces including Zhejiang, Jiangxi, Heilongjiang, Henan, Anhui, Hubei has promulgated pilot program on allowing new entrants for the PCM granule market. In terms of size, we plan to target companies with revenue of RMB100 million to RMB200 million or net book value of RMB50 million to RMB100 million. Geographically, we prefer companies located in central China. We generally target an internal rate of return of approximately 15% on these strategic investment or acquisitions. When evaluating acquisition targets, we primarily take into account market potential of the business of the target and expected synergies both in terms of channel and production expertise with the business of the target. Our Directors are of the view that there are viable targets given the fragmented nature of China's pharmaceutical

FUTURE PLANS AND USE OF PROCEEDS

industry and the wide array of pharmaceutical products. We currently do not have any specific merger and acquisition plan or target and have not engaged in any negotiation or entered into any definitive agreement with any potential target;

- approximately 15%, or HK\$68.2 million, will be used for the acquisition of production permits of PCMs or other western medicines to broaden our product offering. To achieve synergies with our current product portfolio, we plan to acquire pharmaceutical products for the major therapeutic areas of our current products, namely high incidence diseases and chronic diseases. Our current product portfolio covers pharmaceutical products for diseases with high incidence such as cold (primarily our Shuanghuanglian-based cold medicines, as well as Qingre Jiedu Oral Solutions and Xiao'er Kechuanling Oral Solutions) and gynecological diseases (including Yuanhu Zhitong Oral Solutions and Compound Ferrous Sulfate Granules) and chronic diseases such as cardiovascular diseases (including Tongmai Oral Solutions, Mai'an Granules and Yixinkang Tablets), cerebrovascular disease (Flunarizine Hydrochloride Capsules), diabetes (Metformin Hydrochloride Sustained Release Tablets) and chronic hepatitis B (Ganweikang Tablets). We believe that we will be able to achieve synergies by targeting these areas by leveraging our brand reputation in such areas, similar target customers and our rich experiences in marketing and selling these products. Furthermore, as many of these diseases are associated with various complications, a broad product portfolio in these areas enable us to cross sell our pharmaceutical products to a same group of customers. Moreover, these areas have strong market potential according to Frost & Sullivan. We currently do not have any specific target production permit; and
- the remaining amount of approximately HK\$45.4 million, representing 10% of the net proceeds, will be used to provide funding for our working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the proposed Offer Price range or that the Over-allotment Option is exercised.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

The use of the net proceeds from the Global Offering for production capacity expansion, research and development activities and acquisition involves risks. Please refer to the sections headed "Risk Factors — Risks Relating to Our Business — If we are unable to develop and introduce new products or gain market acceptance of our new products, our business, financial condition and results of operations may be adversely affected.", "Risk Factors — Risks Relating to Our Business — We may not be able to expand our production capacity and ramp up our operations as anticipated." and "Risk Factors — Risks Relating to Our Business — We may not be able to successfully implement our business plans." in this prospectus for further details.

FUTURE PLANS AND USE OF PROCEEDS

REASONS FOR THE LISTING

Funding needs for long-term strategic development

While we had cash and cash equivalents of RMB451.1 million and unutilized banking facilities of RMB50.0 million as of April 30, 2018, we also had short-term borrowings of RMB265.0 million and long-term borrowings of RMB90.0 million as of the same date. The substantial majority of our outstanding borrowings of RMB355.0 million was not drawn down from any revolving facilities, and there can be no assurance that we are able to secure a new loan to repay these outstanding borrowings at maturity. In view of this, our net cash position as of April 30, 2018 was RMB96.1 million. To minimize our liquidity risk, we implement a prudent liquidity policy that requires us to maintain a net cash position and banking facilities RMB120 million to RMB150 million in aggregate for three months of our operating cash outflow. Also, when planning our funding needs and manage our liquidity position, we do not assume we can always obtain borrowings of sufficient amount at acceptable costs, if at all.

While our Directors are of the view that we have sound liquidity position and have sufficient capital resources to operate our business based on the current scale without major expansion, we need external financing to fund our strategic expansion, as our current capital resources will not be sufficient to fund our expansion as currently budgeted.

We plan to make capital expenditure of RMB230 million for a new production facilities, an intelligent warehouse and new facilities for initial and advanced processing of medicinal herbs, including approximately HK\$163.3 million to be funded by the net proceeds of the Global Offering. We also plan to spend a total of HK\$136.3 million to strengthen our sales and marketing and research and development efforts. The HK\$68.2 million of net proceeds we set aside for future acquisition may not be able to cover the entire consideration given the size and scale of the target we intend to acquire. Furthermore, we expect to have a larger needs for working capital as we expand our business with our long term interest in mind.

On the other hand, as a private company, we currently have limited option to obtain debt financing other than bank borrowing. Apart from our current unutilized banking facilities of RMB50.0 million as of April 30, 2018, there can be no assurance that we will be able to obtain any substantial bank borrowings or banking facilities at a reasonable costs, if at all. Furthermore, the drawdown of banking facilities is subject to review and vetting of the bank on, including, among other things, our liquidity position. If the banks consider us to be too heavily indebted or that we will not able to maintain a sound liquidity position, the draw down may not be approved at all. Furthermore, we are subject to certain restrictive covenants under our credit facilities with banks. These restrictive covenants include, among other things, limitation on the use of proceeds, requirements to provide notice or obtain consent for creation of new mortgages or charges, making capital expenditure exceeding certain percentage of our net assets, distribution of dividends, and certain significant corporate events. Moreover, some of the loan agreements that we entered into contain provisions where the bank may request to renegotiate the terms if there are material cross-defaults. Future bank borrowings we obtain may impose similar, if not more restrictive covenants on us. As a result, additional bank borrowings may indeed hinder the implementation of our development plans by way of restrictive covenants. These covenants might also restrict our abilities to distribute dividends.

FUTURE PLANS AND USE OF PROCEEDS

Equity financing as a more viable funding option

Our Directors are of the view that equity financing is a more feasible fund raising method than bank borrowing to finance the long term future plans of us because financial institutions might request a significant amount of deposits, securities and properties to be pledged as a condition for obtaining the financing. We may be subject to various covenants contained in relevant loan agreements that may restrict us from obtaining additional financing, conducting our business activities and distributing dividends.

Interest expenses will be incurred when we pursue any form of debt financing, which will affect our financial performance. The payment of interest will also place pressure on our liquidity position. Historically, the weighted average effective interest rates of our bank borrowings, which represent actual borrowing cost incurred during the period divided by weighted average bank borrowings that were outstanding during the period, which were 6.6%, 5.7%, 5.4% and 5.3% as of December 31, 2015, 2016 and 2017 and April 30, 2018, respectively. Our Directors are of the view that the use of equity financing to finance our long term expansion plan would be a better alternative than bank borrowing as our liquidity risk and gearing level will be inevitably increased if our equity base is not increased simultaneously to support our debt level. Furthermore, we may be exposed to increasing borrowing costs in the future if we fund our long term future plans with any form of debt financing.

Access to capital markets

The status of a listed company on reputable stock exchange will provide us with access to the equity and debt capital markets. For example, we will have the flexibility to offer various types of equity, equity-linked or debt securities as a listed company at a much lower costs as compared with the private issuance of such securities to private investors, provided that we can identify such investors.

Such access to the capital markets afford us the flexibility to obtain financing at a most favorable cost. We may conclude that bank borrowing is the most sensible way of funding and continue to do so under a borrower-friendly interest rate environment. Alternatively, we may determine to issue equity, equity-linked or debt securities in issuer-friendly capital markets. That said, our Directors are of the view that the Global Offering will broaden our capital base and provide a platform for us to raise fund, on a recurring basis which is not limited to the amount of net proceeds to be raised in the Global Offering, to finance our future business expansion and long-term development.

Enhance corporate profile and recognition

We believe that a public listing status would assist us in reinforcing our image, and place confidence in enhancing the confidence of stakeholders in the industry including large-scale distributors and drugstore chains who are more willing to establish business relationship with listed companies. We will obtain benefits from the perception of outsiders in respect of good corporate governance and internal control, and generate reassurance among our existing business partners, customers and suppliers, and strengthen our competitiveness in the market. Listing can increase our corporate transparency to gain recognition from stakeholders.

FUTURE PLANS AND USE OF PROCEEDS

Liquidity of Shares trading

We believe that the Listing provides liquidity to and create a market for the trading of the Shares. The highly liquid Hong Kong stock market allows us to expand and diversify our capital base and shareholders base as institutional funds and retail investors in Hong Kong can participate in the equity of our Company, through which the true value of our Group can also be reflected.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, 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:

Our Company

<u>Name of Shareholder</u>	<u>Capacity/ Nature of interest</u>	<u>Number of shares held/ interested in as at the date of this prospectus</u>	<u>Percentage of shareholding as at the date of this prospectus</u>	<u>Number of Shares held/ interested in immediately after completion of the Global Offering</u>	<u>Percentage of shareholding immediately after completion of the Global Offering</u>
Full Bliss	Beneficial interest (Note 1)	46,016,000	30.03%	180,180,000	22.52%
Rayford	Beneficial interest (Note 2)	46,016,000	30.03%	180,180,000	22.52%
Vistra Trust (Labuan) Limited	Trustee's interest (Note 3)	46,016,000	30.03%	180,180,000	22.52%
Mr. Cao Dudu	Interest in controlled corporation (Note 4)	32,400,134	21.14%	126,840,000	15.86%
Ms. Zhou Rui	Interest of spouse (Note 7)	32,400,134	21.14%	126,840,000	15.86%
One Victory	Beneficial interest (Note 4)	32,400,134	21.14%	126,840,000	15.86%
Mr. Cao Changcheng.	Interest in controlled corporation (Notes 1, 4 and 5)	124,432,134	81.20%	487,200,000	60.90%
Ms. Quan Xiufeng . .	Interest of spouse (Note 6)	124,432,134	81.20%	487,200,000	60.90%
China Resources Pharmaceutical Fund	Beneficial interest (Note 8)	15,324,630	10.00%	60,000,000	7.50%
First Joint Elegant . .	Beneficial interest (Note 9)	10,206,204	6.66%	39,960,000	5.00%
Mr. Lam Yiu Por . . .	Interest in controlled corporation (Note 10)	10,206,204	6.66%	39,960,000	5.00%
Ms. Fung Wai Sze . .	Interest of spouse (Note 11)	10,206,204	6.66%	39,960,000	5.00%

SUBSTANTIAL SHAREHOLDERS

Notes:

1. Full Bliss is wholly-owned by Mr. Cao Changcheng. As Mr. Cao Changcheng beneficially owns 100% of the issued shares of Full Bliss, Mr. Cao Changcheng is deemed to be interested in 180,180,000 Shares held by Full Bliss pursuant to the SFO.
2. Rayford is a wholly-owned subsidiary of Vistra Trust (Labuan) Limited.
3. Vistra Trust (Labuan) Limited is a trustee of the Fusen Trust, whereby Mr. Hou Taisheng, Ms. Meng Qingfen, Mr. Fu Jiancheng, Mr. Chi Yongsheng and 43 other individuals are the beneficiaries under the Fusen Trust. As Vistra Trust (Labuan) Limited holds 100% of the issued shares of Rayford in the capacity of a trustee, Vistra Trust (Labuan) Limited is deemed to be interested in 180,180,000 Shares held by Rayford pursuant to the SFO.
4. One Victory is wholly-owned by Mr. Cao Dudu. Mr. Cao Dudu is deemed to be interested in 126,840,000 Shares held by One Victory pursuant to the SFO. Furthermore, pursuant to the Second Deed of Confirmation dated August 18, 2017 entered into between Mr. Cao Changcheng, Mr. Cao Dudu and One Victory, Mr. Cao Changcheng is entrusted to exercise all voting rights attaching to the Shares owned by One Victory and direct One Victory to vote accordingly.
5. Mr. Cao Changcheng is the protector of the Fusen Trust who has the power to remove the trustee and appoint new trustee for the Fusen Trust. Mr. Cao Changcheng is also the investment manager of the Fusen Trust, who is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford and direct the trustee of the Fusen Trust to vote accordingly. Mr. Cao Changcheng, through Full Bliss, Rayford and One Victory, is therefore interested in an aggregate of 487,200,000 Shares, representing 60.90% of our issued share capital upon completion of the Global Offering and the Capitalization Issue under the SFO (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).
6. Ms. Quan Xiufeng is Mr. Cao Changcheng's spouse and is deemed to be interested in the 487,200,000 Shares in which Mr. Cao Changcheng is interested for the purpose of the SFO.
7. Ms. Zhou Rui is Mr. Cao Dudu's spouse and is deemed to be interested in the 126,840,000 Shares in which Mr. Cao Dudu is interested for the purpose of the SFO.
8. China Resources Phamaceutical Fund is a limited liability partnership established in the PRC and controlled by independent third parties.
9. First Joint Elegant is wholly-owned by Mr. Lam Yiu Por, an independent third party.
10. First Joint Elegant is wholly-owned by Mr. Lam Yiu Por. Mr. Lam Yiu Por is deemed to be interested in 39,960,000 Shares held by First Joint Elegant pursuant to the SFO.
11. Ms. Fung Wai Sze is Mr. Lam Yiu Por's spouse and is deemed to be interested in the 39,960,000 Shares in which Mr. Lam Yiu Por is interested for the purpose of the SFO.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have interests or short positions in the 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 who will be directly or indirectly, 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 of its subsidiaries.

SHARE CAPITAL

SHARE CAPITAL

The share capital of our Company immediately following the Global Offering and the Capitalization Issue will be as follows:

Authorized share capital	<i>HK\$</i>
<u>2,000,000,000</u> Shares	<u>20,000,000</u>

Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised):	<i>HK\$</i>
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153,246,304 Shares in issue	1,532,463.04
446,753,696 Shares to be issued pursuant to the Capitalization Issue	4,467,536.96
<u>200,000,000</u> Shares to be issued pursuant to the Global Offering	<u>2,000,000</u>
<u>800,000,000</u> Shares in total	<u>8,000,000</u>

Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is exercised in full):	<i>HK\$</i>
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153,246,304 Shares in issue	1,532,463.04
446,753,696 Shares to be issued pursuant to the Capitalization Issue	4,467,536.96
200,000,000 Shares to be issued pursuant to the Global Offering	2,000,000
<u>30,000,000</u> Shares to be issued pursuant to the Over-allotment Option	<u>300,000</u>
<u>830,000,000</u> Shares in total	<u>8,300,000</u>

MINIMUM PUBLIC FLOAT

At least 25% of the total issued share capital of our Company must at all times be held by the public. The 200,000,000 Offer Shares represent not less than 25% of the issued share capital of our Company upon Listing.

RANKING

The Offer Shares will rank pari passu in all respects with all our Shares now in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of Listing.

SHARE CAPITAL

CAPITALIZATION ISSUE

Pursuant to the resolutions of our Shareholders passed on June 14, 2018, subject to the share premium account of our Company being credited as a result of the Global Offering, our Directors are authorized to allot and issue a total of 446,753,696 Shares credited as fully paid at par to Full Bliss, Rayford, Wealth Depot, One Victory, First Joint Elegant and China Resources Pharmaceutical Fund (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalization of the sum of HK\$4,467,536.96 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering”, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of our Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

- (a) 20% of the number of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding our Shares which may be issued upon exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme); and
- (b) the aggregate number of Shares repurchased pursuant to the authority granted to our Directors referred to in the paragraph headed “General mandate to repurchase Shares” in this section.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company; or
- (b) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For details of this general mandate, please refer to the section headed “Statutory and general information — (A) Further information about our Company — 3. Written resolutions of our Shareholders passed on June 14, 2018” in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering”, our Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognized by the SFC and the Stock Exchange for this purpose) with an aggregate number of Shares of not more than 10% of the number of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding our Shares which may be issued upon exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Statutory and general information — (A) Further information about our Company — 7. Repurchase of our Shares by our Company” in Appendix IV to this prospectus. The general mandate to repurchase Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company; or
- (b) the expiration of the period within which the next annual general meeting is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For details of this general mandate, please refer to the sections headed “Statutory and general information — (A) Further information about our Company — 3. Written resolutions of our Shareholders passed on June 14, 2018” and “Statutory and general information — (A) Further information about our Company — 7. Repurchase of our Shares by our Company” in Appendix IV to this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarized in the section headed “Statutory and general information — (D) Share Option Scheme” in Appendix IV to this prospectus.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at the Latest Practicable Date.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under the Articles, a summary of which is set out in Appendix III to this prospectus.

UNDERWRITING

HONG KONG UNDERWRITERS

China Securities (International) Corporate Finance Company Limited
ABCI Securities Company Limited
Bluemount Securities Limited
Dongxing Securities (Hong Kong) Company Limited
Head & Shoulders Securities Limited
GF Securities (Hong Kong) Brokerage Limited

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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 Underwriters. If, for any reason, the Offer Price is not agreed between the Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 20,000,000 Hong Kong Offer Shares and the International Offering of initially 180,000,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” in this prospectus as well as to the Over-allotment Option in the case of the International Offering.

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong in accordance with the terms and conditions of this prospectus and the Application Forms relating thereto.

Subject to the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and to certain other conditions set out in the Hong Kong Underwriting Agreement (including the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) and the Company agreeing upon the Offer Price), the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus and the Application Forms relating thereto and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

UNDERWRITING

Grounds for Termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled, in their sole and absolute discretion, by notice (orally or 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:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the Cayman Islands, the BVI, any member of the European Union, Japan, Singapore or any other jurisdiction relevant to any member of the Group or the Global Offering (the “**Relevant Jurisdictions**”, and each a “**Relevant Jurisdiction**”); or
 - (ii) any change, or any development involving a prospective change (whether or not permanent), or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, investment markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdiction or elsewhere; or
 - (iii) 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 Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Singapore Stock Exchange, the Tokyo Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market or the London Stock Exchange; or
 - (iv) 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), the PRC, New York (imposed at Federal or New York State level or other competent authority), London, the Cayman Islands, the BVI, the European Union (or any member thereof), Japan, Singapore or any other jurisdiction relevant to any member of the Group or the Global Offering, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or

UNDERWRITING

- (v) any new laws, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authorities of) existing laws, in each case, in or affecting any Relevant Jurisdictions; or
- (vi) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for any of the Relevant Jurisdiction; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the United States dollar, Euro, Hong Kong dollar or the Renminbi against any foreign currencies or a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or the Renminbi is linked to any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdiction; or
- (viii) any action, suit, proceedings, litigation or claim of any third party being threatened or instigated against any member of the Group or the Controlling Shareholders, Rayford, One Victory or any Director; or
- (ix) an authority or a political body or organization in any of the Relevant Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of the Group, any Director or any director of any member of the Group, the Controlling Shareholders, Rayford or One Victory; or
- (x) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or
- (xi) any change or development or event involving a prospective change in, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xii) any loss or damage sustained by the Company or any other member of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xiii) the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance, 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 or any other applicable laws; or

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(xiv) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole and absolute opinion of the Joint Global Coordinators (1) has or will have or may 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 may have an adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the Shares in the secondary market; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Hong Kong Public Offering and/or the Global Offering to proceed or to market the Global Offering or dealings in the Shares in the secondary market, or the delivery or distribution of the Offer Shares on the terms and in the manner contemplated by the Application Forms, this prospectus and/or in any notices, announcements, advertisements, written communications or other documents issued and used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or (4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting), the Hong Kong Public Offering or the Global Offering incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Joint Global Coordinators:
- (i) a Director being charged with an indictable offense or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
 - (ii) the chairman, chief executive officer, any executive Director or chief financial officer of the Company vacating his or her office; or
 - (iii) a contravention by any member of the Group of the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or applicable laws; or
 - (iv) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including any of the Shares that may be issued under the Over-allotment Option) pursuant to the terms of the Global Offering; or
 - (v) any valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or

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- (vi) that any statement contained in any of this prospectus and the Application Forms (the “**Hong Kong Public Offering Documents**”) and/or in any notices, announcements, 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 misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the Hong Kong Public Offering Documents and/or any notices, announcements, 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 based on reasonable assumptions; or
- (vii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any of the Hong Kong Public Offering Documents and/or in any notices, announcements, 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); or
- (viii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters); or
- (ix) any event, act or omission which gives or is likely to give rise to any liability of any of the Company, the Controlling Shareholders, Rayford, One Victory and Mr. Cao Dudu as indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or
- (x) any adverse change, or any development involving a prospective adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of the Group; or
- (xi) any breach of, or any event or circumstance rendering untrue or incorrect or misleading in any respect, any of the representations, warranties, agreements and undertakings given by any of the Company, the Controlling Shareholders, Rayford, One Victory or Mr. Cao Dudu under the Hong Kong Underwriting Agreement; or
- (xii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, that the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (xiii) a withdrawal by the Company of this prospectus (and/or any other documents issued or used in connection with the Global Offering) or from the Global Offering; or

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- (xiv) any of the experts named in the paragraph headed “Statutory and General Information — (E) Other Information — 6. Qualifications of experts” in Appendix IV to this prospectus (other than the Sole Sponsor) 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
- (xv) that any person (other than the Sole Sponsor) has withdrawn or is subject to withdrawal of its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents; or
- (xvi) the Stock Borrowing Agreement is not duly authorized, executed and delivered or it is terminated; or
- (xvii) a material portion of the orders in the book-building process has been withdrawn, terminated or cancelled.

Undertakings to the Stock Exchange

(A) Undertakings by the Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that except pursuant to the Global Offering (including the exercise of the Over-allotment Option) and the grant of options under the Share Option Scheme as described in this prospectus, no further Shares or securities convertible into equity securities (whether or not of a class already listed) will be issued by the Company, or form the subject of any agreement to such an issue by the Company within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the circumstances permitted by Rule 10.08 (1) to (5) of the Listing Rules.

(B) 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 the Company that except pursuant to any lending of Shares pursuant to the Stock Borrowing Agreement, he/it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of his/its shareholding 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 he/it is shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) 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

UNDERWRITING

Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder of the Company.

Note (2) to Rule 10.07(2) of the Listing Rules provides that Rule 10.07 of the Listing Rules does not prevent a Controlling Shareholder from using the shares owned by him/her/it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

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 the Company that within the period commencing on the date by reference to which disclosure of his/its shareholding in the Company 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, he/it will:

- (i) when he/it pledges or charges any Shares beneficially owned by him/it in favor 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 the Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when he/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 the Company of such indications.

(C) Undertakings by other Shareholders

In view of their existing shareholdings in the Company, each of Rayford, One Victory and Mr. Cao Dudu (being the ultimate beneficial owner of One Victory) has voluntarily undertaken to the Stock Exchange and to the Company that it will not in the period commencing on the date by reference to which disclosure of its shareholding 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.

Undertakings Pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by the Company

Except for the Capitalization Issue, the issue, offer, allotment and sale of the Offer Shares pursuant to the Global Offering (including pursuant to any exercise of the Over-allotment Option, at any time) and the grant of options pursuant to the Share Option Scheme and the issue of Shares on exercise thereof, during the period commencing on the date of the Hong Kong Underwriting Agreement and up to and including, the date falling six months after the Listing Date (the “**First Six-Month Period**”), we have, pursuant to the Hong Kong Underwriting Agreement, undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong

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Underwriters not to, and to procure each other member of the Group not to, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, 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 any mortgage, charge, pledge, lien or other security interest or any option, restriction, right of first refusal, right of pre-emption or other third party claim, right, interest or preference or any encumbrance of any kind (an “**Encumbrance**”) over, or contract or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase any Shares or other securities of the Company or any shares or other securities of such other member of the Group, 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 subscribe for or purchase, any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing), or deposit any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or
- (b) 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 Shares, debt capital or other securities of the Company or any shares or other securities of such other member of the Group, 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 subscribe for or purchase, any Shares or other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing); or
- (c) enter into any transactions with the same economic effect as any transaction specified in paragraph (a) or (b) above; or
- (d) offer to or agree to or announce, or publicly disclose, any intention to effect any transaction specified in paragraph (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or other securities of the Company or shares or other securities of such other member of the Group, as applicable, or in cash or otherwise (whether or not the issue of such 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 paragraph (a), (b) or (c) 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 any such transaction, offer, agreement or announcement will not, and no other act of the Company will, create a disorderly or false market in the securities of the Company.

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Each of the Controlling Shareholders and Mr. Cao Dudu jointly and severally undertakes to the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor to procure the Company to comply with the above undertakings.

(B) Undertakings by the Controlling Shareholders and other Shareholders

Each of the Controlling Shareholders, Rayford, One Victory and Mr. Cao Dudu has jointly and severally undertaken to each of the Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters that, except as pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) at any time during the First Six-Month Period, he/it will not, and will procure that none of its associates/companies controlled by him/it will, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, 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 Shares or other securities of the Company, any shares or other securities of Full Bliss, Rayford or One Victory or any interest respectively 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 Shares or other securities of the Company or any shares or other securities of Full Bliss, Rayford or One Victory), or any interest in any of the foregoing of Full Bliss, Rayford, One Victory or deposit any Shares or other securities of the Company, or any shares or other securities of Full Bliss, Rayford or One Victory with a depository in connection with the issue of depository 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 Shares or other securities of the Company or any shares or other securities of Full Bliss, Rayford or One Victory or any interest respectively 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 Shares or any other securities of the Company or any shares or other securities of Full Bliss, Rayford or One Victory, or any interest in the foregoing), or (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (a)(i) or (ii) above, or (iv) offer to or agree to or announce, or publicly disclose, any intention to effect any transaction specified in sub-paragraph (a)(i), (ii) or (iii) above, in each case, whether any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company or shares or other securities of Full Bliss, Rayford or One Victory, or in cash or otherwise (whether or not the issue of such Shares or other securities of the Company or shares or other securities of Full Bliss, Rayford or One Victory will be completed within the First Six-Month Period);
- (b) he/it will not, during the Second Six-Month Period, enter into any of the transactions specified in sub-paragraph (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or

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disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, he/it will cease to be a controlling shareholder (as defined in the Listing Rules) of the Company, as applicable; and

- (c) until the expiry of the Second Six-Month Period, in the event that he/it enters into any of the transactions specified in paragraph (a)(i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the securities of the Company.

Each of the Controlling Shareholders has further undertaken to each of the Company, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that he/it will, at any time within the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 12 months after the Listing Date:

- (a) upon any pledge or charge in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or securities or interests in the Shares or securities of the Company beneficially owned by him/it for a bona fide commercial loan, immediately inform the Company, the Joint Global Coordinators and the Sole Sponsor in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
- (b) upon any indication received by him/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or securities of the Company will be disposed of, immediately inform the Company, the Joint Global Coordinators and the Sole Sponsor in writing of such indication.

We have agreed and undertaken to the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and each of the Hong Kong Underwriters that upon receiving such information in writing from any of the Controlling Shareholders, we will, as soon as possible, notify the Stock Exchange and make a public disclosure in relation to such information in accordance with the Listing Rules.

Each of the Controlling Shareholders has also undertaken to each of the Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters that he/it will procure the Company to procure that none of its Directors or their respective close associates and/or associates (such terms as respectively defined in the Listing Rules) will himself or themselves (or through a company controlled by him or them), apply for any of the Hong Kong Offer Shares whether in his or their own names or through nominees unless permitted to do so under the Listing Rules and having obtained confirmation to that effect.

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Undertaking by each of Wealth Depot, First Joint Elegant and China Resources Pharmaceutical Fund

Each of Wealth Depot and First Joint Elegant, together with their respective ultimate beneficial owners, as well as China Resources Pharmaceutical Fund (the “**Covenantors**”) has entered into a lock-up agreement on June 14, 2018, pursuant to which each of the Covenantors agrees and undertakes with each of the Company, the Sole Sponsor and the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the other Underwriters that it will not, and procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it or pursuant to any trust of which it is the settlor will, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), during the First Six-Month Period:

- (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, 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 Shares or other securities of the Company, any shares or other securities of each of the Covenantors (where applicable) or any interest respectively 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 Shares or shares of each of the Covenantors (where applicable), such other securities or any interest in any of the foregoing (the “**Locked-up Securities**”)), or deposit any Shares or other securities of the Company or any shares or other securities of each of the Covenantors (where applicable) with a depository in connection with the issue of depository 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 Locked-up Securities; or
- (iii) enter into any transaction with the same economic effect as any transaction specified in sub-paragraph (i) or (ii) above; or
- (iv) offer to or agree to or contract to or announce any intention to enter into or effect any transaction specified in sub-paragraph (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in sub-paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of the Company or shares or other securities of each of the Covenantors (where applicable) in cash or otherwise (whether or not the issue of such Shares or other securities of the Company or shares or other securities of each of the Covenantors (where applicable) will be completed within the First Six-Month Period).

UNDERWRITING

Indemnity

We have agreed to indemnify the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters' Interests in the Company

Except for its obligations under the Hong Kong Underwriting Agreement and save as disclosed in this prospectus, none of the Hong Kong Underwriters has any shareholding interest in the Company or any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in the Company.

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 obligations under the Hong Kong Underwriting Agreement.

The International Offering

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set out therein, the International Underwriters would severally agree to procure purchasers for, or to purchase, Offer Shares being offered pursuant to the International Offering (excluding, for the avoidance of doubt, the Offer Shares which are subject to the Over-allotment Option). It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors are reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

We expect to grant to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 30,000,000 Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to cover over-allocations in the International Offering, if any.

Commissions and Expenses

The Underwriters will receive a commission of 2.5% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commissions. The Joint Global Coordinators may receive an additional incentive fee of 2.0% of the Offer Price of all the Offer Shares at our Company's discretion.

UNDERWRITING

For 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 Joint Global Coordinators and the relevant International Underwriters.

The aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$45.6 million (assuming an Offer Price of HK\$2.50 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), the full payment of the discretionary incentive fee and the Over-allotment Option is not exercised at all), are payable and borne by the Company.

Sole Sponsor's Fee

An amount of HK\$5.3 million is payable by the Company as sponsor fees to the Sole Sponsor.

Other Services Provided by the Underwriters

The Joint Global Coordinators and the Underwriters may in their ordinary course of business provide financing to investors subscribing for the Offer Shares offered pursuant to this prospectus. The Joint Global Coordinators and the Underwriters may enter into hedges and/or dispose of such Offer Shares in relation to the financing which may have a negative impact on the trading price of the Shares.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor 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 stabilizing 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 relation to the Shares, those activities could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in the Shares, and entering into over-the-counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares. All such activity 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 Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

UNDERWRITING

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the 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 Shares in most cases.

All such activities may occur both during and after the end of the stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the 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 Stabilizing 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 stabilizing 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.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (a) the Hong Kong Public Offering of 20,000,000 Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described in the section headed “— The Hong Kong Public Offering” below; and
- (b) the International Offering of 180,000,000 Shares (subject to reallocation and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S.

China Securities (International) Corporate Finance Company Limited, ABCI Capital Limited and Bluemount Securities Limited are the Joint Global Coordinators of the Global Offering. China Securities (International) Corporate Finance Company Limited, ABCI Capital Limited, Bluemount Securities Limited, Dongxing Securities (Hong Kong) Company Limited, Head & Shoulders Securities Limited and GF Securities (Hong Kong) Brokerage Limited are the Joint Bookrunners of the Global Offering. China Securities (International) Corporate Finance Company Limited, ABCI Securities Company Limited, Bluemount Securities Limited, Dongxing Securities (Hong Kong) Company Limited, Head & Shoulders Securities Limited and GF Securities (Hong Kong) Brokerage Limited are the Joint Lead Managers of the Global Offering. China Securities (International) Corporate Finance Company Limited is the Sole Sponsor to the Listing.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

We are initially offering 20,000,000 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. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 2.5% of the enlarged issued share capital of the Company immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

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 which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions set out in the section headed “— Conditions of the Global Offering” below.

STRUCTURE OF THE GLOBAL OFFERING

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 would 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.

The total number of Offer Shares initially available under the Hong Kong Public Offering (after taking into account any reallocation) is to be equally divided into two pools for allocation purposes: 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 Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, 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 Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, 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 Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 10,000,000 Hong Kong Offer Shares (being 50% of the 20,000,000 Offer Shares initially available under the Hong Kong Public Offering) are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange prescribe a clawback mechanism which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if the Offer Shares under the International Offering are fully subscribed or over-subscribed and certain prescribed total demand levels are reached as further described below:

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then no Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 20,000,000 Offer Shares, representing 10% of the Offer Shares initially available under the Global Offering;
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering so that the total

STRUCTURE OF THE GLOBAL OFFERING

number of Offer Shares available under the Hong Kong Public Offering will be 60,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;

- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 80,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares to be reallocated to the Hong Kong Public Offering from the International Offering will be increased so that the total number of Offer Shares available under the Hong Kong Public Offering will be 100,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

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 Joint Global Coordinators deem appropriate.

In addition, the Joint Global Coordinators 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 (i) the Offer Shares under the International Offering are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents more than 100%, but less than 15 times, of the number of Offer Shares initially available for subscription under the Hong Kong Public Offering; or (ii) the Offer Shares under the International Offering are not fully subscribed, and if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents more than 100% of the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, the Joint Global Coordinators may, at their discretion, reallocate the Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, provided that the total number of Offer Shares available under the Hong Kong Public Offering shall not be increased to more than 40,000,000 Offer Shares, representing two times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering and 20% of the total number of Offer Shares initially available for subscription under the Global Offering, and the final Offer Price shall be fixed at the low end of the Offer Price range (that is, HK\$2.00 per Offer Share) stated in this prospectus in accordance with Guidance Letter HKEX-GL91-18 issued by the Hong Kong Stock Exchange.

Any such clawback and reallocation between the International Offering and the Hong Kong Public Offering will be completed prior to any adjustment of the number of Offer Shares pursuant to the exercise of the Over-allotment Option, if any.

STRUCTURE OF THE GLOBAL OFFERING

If the Hong Kong Public Offering is not fully subscribed, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Joint Global Coordinators deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also 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 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, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$3.00 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed “— Pricing and Allocation” below, is less than the maximum price of HK\$3.00 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares Offered

The International Offering will consist of an initial offering of 180,000,000 Offer Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which 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 the section headed “— 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 of the Shares on the Stock Exchange. 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 the Company and its shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

The Joint Global Coordinators (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 Joint Global Coordinators 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 application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

We expect to grant to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters), the Over-allotment Option, which will be exercisable from the Listing Date until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 30,000,000 Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover over-allocations in the International Offering, if any. In the event that the Over-allotment Option is exercised, we will make an announcement.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and a number of other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager, its affiliates or any person acting for it, as stabilizing manager, on behalf of the Underwriters, may effect transactions with a view to stabilizing or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any persons acting for it, to conduct any such stabilizing action. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. Should stabilizing transactions be effected in connection with the Global Offering, this will be effected at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it.

Stabilization action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong. Stabilization action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimizing any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the 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 Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares, (v) selling or agreeing to sell any 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 paragraph (ii), (iii), (iv) or (v).

STRUCTURE OF THE GLOBAL OFFERING

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilizing Manager, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilizing Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager, its affiliates or any person acting for it may have an adverse impact on the market price of the Shares;
- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date, and is expected to expire on Friday, August 3, 2018, being the 30th day after the date of closing of the application lists under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and
- stabilizing bids or transactions effected in the course of the stabilizing action may be made at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Over-allocation

Following any over-allocation of Shares in connection with the Global Offering, the Joint Global Coordinators, their affiliates or any person acting for them may cover such over-allocation by, among other methods, using Shares purchased by the Stabilizing Manager, its affiliates or any person acting for it in the secondary market, exercising the Over-allotment Option in full or in part, or through the stock borrowing arrangements mentioned below or by a combination of these means. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including in relation to stabilization, the Securities and Futures (Price Stabilizing) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be issued pursuant to the exercise in full of the Over-allotment Option, being 30,000,000 Shares, representing 15% of the Offer Shares initially available under the Global Offering.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 30,000,000 Shares from One Victory pursuant to the Stock Borrowing Agreement. The stock borrowing arrangements under the Stock Borrowing Agreement will comply with the requirements set out in Rule 10.07(3) of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

The International Underwriters 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 about, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between the Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on the Price Determination Date, which is expected to be on or about Wednesday, July 4, 2018 and in any event no later than Friday, July 6, 2018.

The Offer Price will not be more than HK\$3.00 per Offer Share and is expected to be not less than HK\$2.00 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. 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 indicative Offer Price range stated in this prospectus.

The Joint Global Coordinators (on behalf of the Hong Kong Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with our consent, reduce the number of Offer Shares and/or the indicative 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 there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Company (www.fusenyy.com) and the website of the Stock Exchange (www.hkexnews.hk) notices of the reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative 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 between the Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters), will under no circumstances be set outside the Offer Price range stated in this prospectus. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

In the event of a reduction in the number of Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the

STRUCTURE OF THE GLOBAL OFFERING

Global Offering. 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 Global Coordinators.

The final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of and results of allocations of Offer Shares under the Hong Kong Public Offering are expected to be announced on Tuesday, July 10, 2018 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Company (www.fusenyy.com) and the website of the Stock Exchange (www.hkexnews.hk).

HONG KONG UNDERWRITING AGREEMENT

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 the Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarized in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptances of all applications for Offer Shares will be conditional on:

- (a) the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including pursuant to the exercise of the Over-allotment Option) and the Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- (b) the Offer Price having been duly agreed between the Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on the Price Determination Date;
- (c) the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and
- (d) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining 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 Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

STRUCTURE OF THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed between the Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) on or before Friday, July 6, 2018, 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 other things, 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 times and dates 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 the Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Company (www.fusenyy.com) and the website of the Stock Exchange (www.hkexnews.hk) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares — 14. Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in (a) 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 issued in respect of the Hong Kong Offer Shares will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional in all respects (including the Underwriting Agreements not having been terminated in accordance with their terms at any time prior to 8:00 a.m. on the Listing Date).

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalization Issue, the Shares to be issued pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option) and the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

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 deal is being or proposed to be sought in the near future.

SHARES WILL BE ELIGIBLE FOR 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 Listing Date or any other date as determined by HKSCC. 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 advisor 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.

STRUCTURE OF THE GLOBAL OFFERING

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, July 11, 2018, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, July 11, 2018. The Shares will be traded in board lots of 1,000 Shares. The stock code of the Shares is 1652.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for 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 Joint Global Coordinators, 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); 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 authorized officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at its 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.

HOW TO APPLY FOR 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 of its subsidiaries;
- are a Director or chief executive officer of the Company and/or any of its subsidiaries;
- are a connected person or a core connected person (as respectively defined in the Listing Rules) of our Company or will become a connected person or a core connected person of our Company immediately upon completion of the Global Offering;
- are an associate or a close associate (as respectively defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participated in 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 from 9:00 a.m. Thursday, June 28, 2018 to 12:00 noon on Wednesday, July 4, 2018 from:

- (i) any of the following offices of the Hong Kong Underwriters:

China Securities (International) Corporate Finance Company Limited	18/F Two Exchange Square 8 Connaught Place Central Hong Kong
ABCI Securities Company Limited	10/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
Bluemount Securities Limited	Room 2403-05, Jubilee Centre 18 Fenwick Street Wan Chai Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Dongxing Securities (Hong Kong) Company Limited	6805–6806A, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Head & Shoulders Securities Limited	Room 2511, 25/F, Cosco Tower 183 Queen’s Road Central Hong Kong
GF Securities (Hong Kong) Brokerage Limited	29–30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong

(ii) or any of the following branches of Wing Lung Bank Limited:

	Branch name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	North Point Branch	361 King’s Road
Kowloon	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
New Territories	Tsuen Wan Branch	251 Sha Tsui Road

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. Thursday, June 28, 2018 to 12:00 noon on Wednesday, July 4, 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a check or a banker's cashier order attached and marked payable to "Wing Lung Bank (Nominees) Limited — Fusen Pharmaceutical Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the Receiving Bank listed above, at the following times:

Thursday, June 28, 2018 — 9:00 a.m. to 5:00 p.m.
Friday, June 29, 2018 — 9:00 a.m. to 5:00 p.m.
Saturday, June 30, 2018 — 9:00 a.m. to 1:00 p.m.
Tuesday, July 3, 2018 — 9:00 a.m. to 5:00 p.m.
Wednesday, July 4, 2018 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, July 4, 2018, the last application day or such later time as described in "— 10. Effect of Bad Weather on the Opening of the Application 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 authorize the Company and/or the Joint Global Coordinators (or its 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 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 Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, 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);

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (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, the Hong Kong Share Registrar, Receiving Bank, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their advisers 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 Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers 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) authorize 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 check(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, unless you have fulfilled the criteria mentioned in "Personal Collection" in the prospectus to collect the share certificate(s) and/or refund check(s) in person;
- (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, where the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are oversubscribed irrespective of the number of times, up to 20,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 40,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). Further details of the reallocation are stated in the paragraph headed "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation" in this prospectus;
- (xviii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xix) (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 to the White Form eIPO Service Provider by you or by any one as your agent or by any other person; and
- (xx) (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 Instructions for YELLOW Application Forms

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 “— 2. Who Can Apply” section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted 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 authorize 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

You may submit your application to the White Form eIPO Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, June 28, 2018 until 11:30 a.m. on Wednesday, July 4, 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, July 4, 2018 or such later time under “— 10. Effect of Bad Weather on the Opening of the Application 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 (Winding 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** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 for each “Fusen Pharmaceutical Company Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of Dongjiang River Source Tree Planting 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 +852 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 Center
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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Joint Global Coordinators and the Hong Kong 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 allotted 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 Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment 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;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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 Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, 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, the Hong Kong Share Registrar, Receiving Bank, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their 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 the fifth day after the time of the opening of the application lists (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 the fifth day after the time of the opening of the application lists (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

HOW TO APPLY FOR HONG KONG OFFER SHARES

instructions) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; 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 number of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 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:

Thursday, June 28, 2018	—	9:00 a.m. to 8:30 p.m.	⁽¹⁾
Friday, June 29, 2018	—	8:00 a.m. to 8:30 p.m.	⁽¹⁾
Saturday, June 30, 2018	—	8:00 a.m. to 1:00 p.m.	⁽¹⁾
Tuesday, July 3, 2018	—	8:00 a.m. to 8:30 p.m.	⁽¹⁾
Wednesday, July 4, 2018	—	8:00 a.m. ⁽¹⁾ to 12:00 noon	

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Thursday, June 28, 2018 until 12:00 noon on Wednesday, July 4, 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, July 4, 2018, the last application day or such later time as described in “— 10. 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 Hong Kong Share Registrar, the Receiving Bank, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, 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 application day in making your electronic applications. The Company, the Directors, the Joint Global Coordinators, the Sole Sponsor,

HOW TO APPLY FOR HONG KONG OFFER SHARES

the Joint Bookrunners, the Joint Lead Managers 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 allotted 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 Center to complete an input request form for electronic application instructions before 12:00 noon on Wednesday, July 4, 2018 or such later time under “— 10. Effect of Bad Weather on the Opening of the Application Lists” below.

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 (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or through the **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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 the Hong Kong Offer 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 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 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 (as defined in the Listing Rules), 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).

See the section headed “Structure of the Global Offering — Pricing and Allocation” for further details on the Offer Price.

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 Wednesday, July 4, 2018. 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 Wednesday, July 4, 2018 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 the section headed “Expected Timetable”, an announcement will be made in such event.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Tuesday, July 10, 2018 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the Company's website at www.fusenyy.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.fusenyy.com and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Tuesday, July 10, 2018;
- from the designated results of allocations website at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, July 10, 2018 to 12:00 midnight on Monday, July 16, 2018;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, July 10, 2018 to Friday, July 13, 2018;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, July 10, 2018 to Thursday, July 12, 2018 at all the Receiving Banks branches and sub-branches.

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. See "Structure of the Global Offering" for further details.

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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (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 Joint Global Coordinators, 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 allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(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 at **www.eipo.com.hk**;
- your payment is not made correctly or the check or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believes 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\$3.00 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 check or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, July 10, 2018.

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted 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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund check(s) crossed “Account Payee Only” in favor 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 check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund checks and share certificates are expected to be posted on or before Tuesday, July 10, 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, July 11, 2018 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus 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 check(s) and/or share certificate(s) from the Hong Kong 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 Tuesday, July 10, 2018 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

HOW TO APPLY FOR HONG KONG OFFER SHARES

stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund check(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched 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 check(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, July 10, 2018, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) will be sent to the address on the relevant Application Form on or before Tuesday, July 10, 2018, 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 Tuesday, July 10, 2018, 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 Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted 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 Tuesday, July 10, 2018 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 the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor,

HOW TO APPLY FOR HONG KONG OFFER SHARES

Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, July 10, 2018, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks.

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 or before Tuesday, July 10, 2018 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 dispatched 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 dispatched to the address as specified in your application instructions in the form of refund check(s) on or before Tuesday, July 10, 2018 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 Tuesday, July 10, 2018, 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 allotment of the Hong Kong Public Offering in the manner specified in "— 11. Publication of Results" above on Tuesday, July 10, 2018. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, July 10, 2018 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- 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 allotted 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 allotted 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 Tuesday, July 10, 2018. 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 Tuesday, July 10, 2018.

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 enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-52, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF FUSEN PHARMACEUTICAL COMPANY LIMITED AND CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED

INTRODUCTION

We report on the historical financial information of Fusen Pharmaceutical Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-52, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2015, 2016 and 2017, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2015, 2016 and 2017 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information").

The Historical Financial Information set out on pages I-4 to I-52 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 June 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

DIRECTORS' RESPONSIBILITY FOR HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's and the Group's financial position as at 31 December 2015, 2016 and 2017, and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES
ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING
UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Relevant Periods.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its incorporation.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

28 June 2018

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

Consolidated statements of profit or loss and other comprehensive income

	<i>Note</i>	Year ended 31 December		
		2015	2016	2017
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	368,634	441,988	452,580
Cost of sales		<u>(195,357)</u>	<u>(219,799)</u>	<u>(200,634)</u>
Gross Profit		173,277	222,189	251,946
Other net income	5	3,251	10,888	5,918
Selling and distribution expenses		(63,636)	(74,208)	(90,704)
General and administrative expenses		<u>(26,039)</u>	<u>(40,277)</u>	<u>(44,980)</u>
Profit from operations		<u>86,853</u>	<u>118,592</u>	<u>122,180</u>
Finance income		38,159	36,128	22,765
Finance costs		<u>(67,744)</u>	<u>(39,952)</u>	<u>(28,609)</u>
Net finance costs	6	<u>(29,585)</u>	<u>(3,824)</u>	<u>(5,844)</u>
Profit before taxation	7	57,268	114,768	116,336
Income tax	8	<u>(11,233)</u>	<u>(18,570)</u>	<u>(19,285)</u>
Profit for the year		<u>46,035</u>	<u>96,198</u>	<u>97,051</u>
Profit attributable to:				
Equity shareholders of the Company		44,879	95,073	96,820
Non-controlling interests		<u>1,156</u>	<u>1,125</u>	<u>231</u>
Profit for the year		<u>46,035</u>	<u>96,198</u>	<u>97,051</u>

	<i>Note</i>	Year ended 31 December		
		2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>
Other comprehensive income for the year (after tax)				
Item that may be reclassified subsequently to profit of loss:				
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		(80)	(94)	26
Total comprehensive income for the year		<u>45,955</u>	<u>96,104</u>	<u>97,077</u>
Total comprehensive income for the year attributable to:				
Equity shareholders of the Company		44,799	94,979	96,846
Non-controlling interests		<u>1,156</u>	<u>1,125</u>	<u>231</u>
Total comprehensive income for the year		<u>45,955</u>	<u>96,104</u>	<u>97,077</u>
Earnings per share				
Basic and diluted (<i>RMB cents</i>)	<i>11</i>	<u>7</u>	<u>16</u>	<u>16</u>

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of financial position

	Note	As at 31 December		
		2015 RMB'000	2016 RMB'000	2017 RMB'000
Non-current assets				
Property, plant and equipment	13	169,495	171,658	164,789
Interests in leasehold land held for own use under operating leases	13	28,625	27,925	27,225
Intangible assets	14	1,883	1,683	1,483
Deferred tax assets	25(b)	<u>5,309</u>	<u>4,912</u>	<u>4,974</u>
		<u>205,312</u>	<u>206,178</u>	<u>198,471</u>
Current assets				
Inventories	15	106,633	100,779	100,506
Trade receivables	16	208,800	123,027	109,115
Prepayments and other receivables	17	787,961	176,714	41,515
Restricted guarantee deposits	18	20,202	—	26,992
Pledged bank deposits	19	—	300,000	—
Cash and cash equivalents	20	<u>32,569</u>	<u>244,390</u>	<u>474,621</u>
		<u>1,156,165</u>	<u>944,910</u>	<u>752,749</u>
Current liabilities				
Trade and bills payables	21	172,522	126,734	119,698
Accruals and other payables	22	196,142	280,859	235,358
Bills payables under financing arrangement	23	20,000	—	—
Bank and other loans	24	616,662	571,492	360,000
Current taxation	25(a)	<u>11,481</u>	<u>15,543</u>	<u>16,922</u>
		<u>1,016,807</u>	<u>994,628</u>	<u>731,978</u>
Net current assets/(liabilities)		<u>139,358</u>	<u>(49,718)</u>	<u>20,771</u>
Total assets less current liabilities		<u>344,670</u>	<u>156,460</u>	<u>219,242</u>
Non-current liabilities				
Deferred income		875	665	4,865
Bank and other loans	24	<u>149,600</u>	<u>29,186</u>	<u>31,600</u>
		<u>150,475</u>	<u>29,851</u>	<u>36,465</u>
Net assets		<u>194,195</u>	<u>126,609</u>	<u>182,777</u>

		As at 31 December		
		2015	2016	2017
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital and reserves				
Share capital	26(a)	71,445	71,633	1,274
Reserves	26	<u>118,138</u>	<u>49,432</u>	<u>179,291</u>
Total equity attributable to equity shareholders of the Company				
		189,583	121,065	180,565
Non-controlling interests		<u>4,612</u>	<u>5,544</u>	<u>2,212</u>
Total equity		<u><u>194,195</u></u>	<u><u>126,609</u></u>	<u><u>182,777</u></u>

The accompanying notes form part of the Historical Financial Information.

Statements of financial position of the Company

	<i>Note</i>	As at 31 December		
		2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>
Non-current asset				
Interests in subsidiaries		—	—	16,934
Current assets				
Prepayments and other receivables		591	820	7,096
Cash and cash equivalents		3	4	46,249
Net assets		<u>594</u>	<u>824</u>	<u>70,279</u>
Capital and reserves				
Share capital	26(a)	565	753	1,274
Reserves	26(f)	29	71	69,005
Total equity		<u>594</u>	<u>824</u>	<u>70,279</u>

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of changes in equity

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Statutory surplus reserves	Other reserves	Exchange reserve	Retained earnings	Total		
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 26(a))	(Note 26(b))	(Note 26(c))	(Note 26(d))	(Note 26(e))				
Balance at									
1 January 2015	71,445	—	18,143	5,582	(25)	63,596	158,741	3,651	162,392
Profit for the year	—	—	—	—	—	44,879	44,879	1,156	46,035
Other comprehensive income	—	—	—	—	(80)	—	(80)	—	(80)
Total comprehensive income for the year	—	—	—	—	(80)	44,879	44,799	1,156	45,955
Appropriation to statutory surplus reserve	—	—	4,639	—	—	(4,639)	—	—	—
Dividends declared	12	—	—	—	—	(13,957)	(13,957)	(195)	(14,152)
Balance at									
31 December 2015	71,445	—	22,782	5,582	(105)	89,879	189,583	4,612	194,195

		Attributable to equity shareholders of the Company						Non-		Total
		Share	Share	Statutory	Other	Exchange	Retained	Total	controlling	equity
		capital	premium	surplus	reserves	reserve	earnings		interests	
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 26(a))	(Note 26(b))	(Note 26(c))	(Note 26(d))	(Note 26(e))				
Balance at 31										
December 2015 and										
at 1 January 2016		71,445	—	22,782	5,582	(105)	89,879	189,583	4,612	194,195
Profit for the year		—	—	—	—	—	95,073	95,073	1,125	96,198
Other comprehensive										
Income		—	—	—	—	(94)	—	(94)	—	(94)
Total comprehensive										
income for the year		—	—	—	—	(94)	95,073	94,979	1,125	96,104
Capital Injection		26(a) 188	—	—	—	—	—	188	—	188
Appropriation to										
statutory surplus										
reserve		—	—	10,290	—	—	(10,290)	—	—	—
Dividends declared		12	—	—	—	—	(163,685)	(163,685)	(193)	(163,878)
Balance at										
31 December 2016		71,633	—	33,072	5,582	(199)	10,977	121,065	5,544	126,609

		Attributable to equity shareholders of the Company								
		Share	Share	Statutory	Other	Exchange	Retained		Non-	Total
		capital	premium	surplus	reserves	reserve	earnings	Total	controlling	equity
Note		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 26(a))	(Note 26(b))	(Note 26(c))	(Note 26(d))	(Note 26(e))				
Balance at 1 January										
2017		71,633	—	33,072	5,582	(199)	10,977	121,065	5,544	126,609
Profit for the year		—	—	—	—	—	96,820	96,820	231	97,051
Other comprehensive income		—	—	—	—	26	—	26	—	26
Total comprehensive income for the year		—	—	—	—	26	96,820	96,846	231	97,077
Capital Injection	26(a)	5,520	62,163	—	2,425	—	—	70,108	—	70,108
Acquisition of non-controlling interests in a subsidiary		—	—	—	2,800	—	—	2,800	(3,370)	(570)
Appropriation to statutory surplus reserve		—	—	9,818	—	—	(9,818)	—	—	—
Dividends declared	12	—	—	—	—	—	(18,222)	(18,222)	(193)	(18,415)
Effect on equity arising from the Reorganisation	26(a)	(75,879)	7,423	—	(23,576)	—	—	(92,032)	—	(92,032)
Balance at										
31 December 2017		1,274	69,586	42,890	(12,769)	(173)	79,757	180,565	2,212	182,777

The accompanying notes form part of the Historical Financial Information.

Consolidated cash flow statements

	Note	Year ended 31 December		
		2015 RMB'000	2016 RMB'000	2017 RMB'000
Operating activities				
Profit before taxation		57,268	114,768	116,336
Adjustments for:				
Depreciation of property, plant and equipment	7(b)	14,946	15,045	15,996
Amortisation of interests in leasehold land held for own use under operating leases	7(b)	700	700	700
Amortisation of deferred income		(210)	(210)	(210)
Amortisation of intangible assets	7(b)	117	200	200
Finance costs		27,210	3,938	7,662
Impairment losses on doubtful debts	7(b)	353	520	1,480
Net loss/(income) on disposal of assets		19	(12)	66
Financial guarantee issued, net	5	959	(5,815)	(3,319)
Changes in working capital				
(Increase)/decrease in inventories		(4,672)	5,854	273
(Increase)/decrease in trade receivables		(26,880)	11,225	(9,252)
(Increase)/decrease in prepayments and other receivables		(9,446)	910	(4,446)
(Decrease)/increase in trade and bills payables		(2,592)	2,750	19,182
Increase in accruals and other payables		19,730	36,583	33,498
Increase in restricted guarantee deposits, net		—	—	(26,992)
Cash generated from operations		77,502	186,456	151,174
PRC income tax paid	25	(7,698)	(14,111)	(17,968)
Net cash generated from operating activities		69,804	172,345	133,206

	<i>Note</i>	Year ended 31 December		
		2015	2016	2017
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investing activities				
Loans to related parties		(372,340)	(256,804)	(319,714)
Repaid by related parties		426,031	866,963	458,952
Payment for the purchase of property, plant and equipment		(27,837)	(19,977)	(9,078)
Proceeds from disposal of property, plant and equipment		124	1,469	—
(Increase)/decrease in pledged bank deposits		—	(300,000)	300,000
Government grants relating to assets received		—	—	4,410
Interest received		41,207	36,015	20,944
		<u>41,207</u>	<u>36,015</u>	<u>20,944</u>
Net cash generated from investing activities		<u>67,185</u>	<u>327,666</u>	<u>455,514</u>

	<i>Note</i>	Year ended 31 December		
		2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>
Financing activities				
Proceeds from bank and other loans		864,011	567,670	391,600
Proceeds from bills payable under financing arrangement		547,290	—	—
Loan from related parties		14,051	70,619	21,118
Repayments of bank and other loans		(774,400)	(719,153)	(600,678)
Repayment of bills payable under financing arrangement		(339,980)	—	—
Bank deposit placed for bill payable under financing arrangement		(386,000)	—	—
Repayment of loans from related parties		(29)	(10,137)	(92,341)
Borrowing costs paid		(42,416)	(40,101)	(30,558)
Dividends paid		(14,152)	(157,276)	(25,017)
Payment for the acquisition of Henan Fusen Pharmaceutical		—	—	(92,032)
Capital injection from shareholders		—	188	70,108
Acquisition of non-controlling interests in a subsidiary		—	—	(570)
Net cash used in financing activities		<u>(131,625)</u>	<u>(288,190)</u>	<u>(358,370)</u>
Net increase in cash and cash equivalents		5,364	211,821	230,350
Cash and cash equivalents at the beginning of year	20	27,205	32,569	244,390
Effect of foreign exchange rate changes		—	—	(119)
Cash and cash equivalents at the end of year	20	<u>32,569</u>	<u>244,390</u>	<u>474,621</u>

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

Fusen Pharmaceutical Company Limited (the “Company”) was incorporated in the Cayman Islands on 18 January 2013 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company and has not carried on any business since the date of its incorporation. The Company and its subsidiaries (together, “the Group”) are principally engaged in manufacturing and sale of pharmaceutical products, which were carried out by Henan Fusen Pharmaceutical Company Limited (“Henan Fusen Pharmaceutical”) and its subsidiary before the completion of the group reorganisation mention below (the “Reorganisation”).

To rationalise the corporate structure in preparation of the listing of the Company’s shares on The Stock Exchange of Hong Kong Limited, the Group underwent the Reorganisation, as detailed in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus. As part of the Reorganisation, the Company, through its wholly owned subsidiaries, acquired the entire equity interests in Henan Fusen Pharmaceutical. On 30 March 2017, the Reorganisation was completed and the Company became the holding company of the Group. As Henan Fusen Pharmaceutical was owned by Mr. Cao Changcheng (“Mr. Cao”) and other Shareholders, who are the same group of shareholders, before and after the Reorganisation and therefore there were no changes in the economic substance of the ownership and the business of the Group. The Reorganisation only involved inserting certain investment holding companies with no substantive operations as the new holding companies of Henan Fusen Pharmaceutical, the former holding company of the Group, during the Relevant Periods. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition, with Henan Fusen Pharmaceutical treated as the acquirer for accounting purposes. The Historical Financial Information has been prepared and presented as a continuation of the financial statements of Henan Fusen Pharmaceutical with the assets and liabilities of Henan Fusen Pharmaceutical recognised and measured at their historical carrying amounts prior to the Reorganisation. Intra-group balances, transactions and unrealised gains/losses on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for the Company and Jinli International Limited (“Jinli”), as they either have not carried on any business since the date of incorporation or are investment holding companies and not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation. The financial statements of the subsidiaries of the Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated and/or established.

Upon completion of the Reorganisation and as the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies:

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interest		Name of statutory auditor
			Held by the Company	Held by Principal subsidiaries activities	
Jinli International Limited	BVI** 13/11/2012	USD1	100%	—	Investing holding company N/A
Wealth Depot (Hong Kong) Limited	Hong Kong 5/10/2016	HK\$500,000	—	100%	Investing holding company CWC CPA Limited
Cloud Dollar Investments Limited	Hong Kong 1/11/2012	HK\$1	—	100%	Investing holding company CWC CPA Limited
Nanyang Hengsheng Enterprise Management Services Limited* 南陽衡盛企業管理服務有限公司	The PRC** 12/12/2012	USD8,000,000	—	100%	Investing holding company Henan Qinzheng Accounting Firm Co., Ltd. 河南勤政會計師事務所有限公司
Henan Fusen Pharmaceutical Company Limited* 河南福森藥業有限公司	The PRC 10/10/2003	RMB75,379,400	—	100%	Manufacturing and sale of pharmaceutical products Henan Qinzheng Accounting Firm Co., Ltd. 河南勤政會計師事務所有限公司 Henan Hongtai Accounting Firm.GP 河南宏泰會計師事務所(普通合夥)
Henan Xichuan Fushan Medicinal Packaging Company Limited* ("Fushan Pharmaceutical Package Material") 河南省浙川伏山藥用包材有限責任公司	The PRC 31/07/2003	RMB2,600,000	—	86.15%	Manufacturing and sale of Pharmaceutical package materials Henan Qinzheng Accounting Firm Co., Ltd.* 河南勤政會計師事務所有限公司

*: The English translation of the Company names for entities established in the PRC is for reference only. The official names of the companies established in the PRC are in Chinese.

** : BVI is the British Virgin Islands, PRC is the People's Republic of China (the "PRC").

All companies now comprising the Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical 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 accounting period beginning 1 January 2017. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on 1 January 2017 are set out in Note 31.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

2 SIGNIFICANT ACCOUNTING POLICIES**(a) Basis of measurement**

The functional currency of the Company is Hong Kong dollars (HKD). The Company's primary subsidiaries were incorporated in the People's Republic of China (the "PRC") and the subsidiaries considered Renminbi (RMB) as their functional currency. As the operations of the Group during the Relevant Periods are conducted in the PRC, the Group determined to present this Historical Financial Information in RMB, unless otherwise stated.

The Historical Financial Information is prepared on the historical cost basis.

(b) Going concern

The Historical Financial Information has been prepared assuming the Group will continue as a going concern.

(c) Use of estimates and judgements

The preparation of the Historical 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 periods in which the estimate is revised if the revision affects only that periods, or in the periods 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 Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the Consolidated statement of financial position in accordance with Note 2(k) or (l) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in subsidiary is stated at cost less impairment losses (see Note 2(h)).

(e) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)).

- Buildings held for own use which are situated on leasehold land classified as held under operating leases (Note 2(g)); 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, 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.

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:

- | | |
|---|---|
| <ul style="list-style-type: none"> — Buildings and infrastructure — Machinery and equipment — Motor vehicles — Others | <ul style="list-style-type: none"> Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion 5–10 years 5–10 years 5 years |
|---|---|

Both the useful life of assets and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated at cost less impairment losses (see Note 2(h)). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction periods, to the extent that these are regarded as an adjustment to borrowing costs (see Note 2(s)).

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(f) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(s)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Technological know-how consists of rights to technological know-how for the development and production of general pharmaceutical products which are amortised on a straight-line basis over the estimated economic lives of 10 years commencing in the year when the rights are available for use.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting periods in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the periods of the lease term except where the property is classified as an investment property or is held for development for sale.

(h) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other current and non-current receivables that are stated at amortised cost are reviewed at the end of each reporting periods 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, 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 are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable 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, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- Interests in leasehold land held for own use under operating leases;
- intangible assets; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- 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 first to reduce the carrying amount of any goodwill allocated to the cash

generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except 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

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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.

(i) 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 periods 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 periods 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 periods in which the reversal occurs.

(j) 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 (see Note 2(h)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) 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 periods of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with Note 2(p)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) 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 three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) 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 period 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.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as expenses in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(o) Income tax

Income tax for the year 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 year, using tax rates enacted or substantively enacted at the end of the reporting periods, and any adjustment to tax payable in respect of previous years.

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.

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 periods 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 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 periods. 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

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 Company or 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.

(p) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within accruals and other payables. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note (p)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other 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.

(q) 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, rebates and returns.

(ii) Service income

Service income is recognised when the relevant services are rendered.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) *Government grants*

Government grants are recognised in the statement 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 income in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income consequently are effectively recognised in profit or loss over the useful life of the asset as other income.

(r) **Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(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 year 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**

(i) A person, or a close member of that person's family, is related to the Group if that person:

- a. has control or joint control over the Group;
- b. has significant influence over the Group; or
- c. is a member of the key management personnel of Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- a. 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).
- b. 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).
- c. Both entities are joint ventures of the same third party.
- d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

- e. The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- f. The entity is controlled or jointly controlled by a person identified in Note 2(t)(i).
- g. A person identified in Note 2(t)(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).
- h. The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the Historical Financial Information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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 Historical Financial Information. The significant accounting policies are set out in Note 2. Other key sources of estimation uncertainty in the preparation of the Historical Financial Information are as follows:

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews at the end of each reporting period the estimated useful lives of an asset and its residual value, if any, based on the Group's historical experience with similar assets and taking into account anticipated technological changes.

The depreciation expense for future period is adjusted if there are significant changes from previous estimates.

(b) Impairment of non-financial assets

The Group tests whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2(h)(ii). The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management's assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-financial assets and the Group's results would be significantly affected. Such impairment losses are recognised in the statement of profit or loss and other comprehensive income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

(c) Allowance for doubtful debts

Management estimates an allowance for doubtful debts resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, customer creditworthiness, and historical write-off experience. If the financial conditions of the customers were to deteriorate, additional allowance may be required.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions. Management reassesses these estimates at the end of each reporting period.

(e) Income tax

The Group is subject to PRC Enterprise Income Tax, Hong Kong Income Tax and Cayman Islands Income Tax. Judgement is required in determining the provision for income tax. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is uncertain. Where the final outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Recognition of deferred tax depends on the management's expectation of future taxable profit that will be available. The outcome of their actual utilisation may be different.

4 REVENUE AND SEGMENT REPORTING**(a) Revenue**

The principal activities of the Group are the manufacturing and sale of pharmaceutical products.

The amount of each significant category of revenue recognised during the Relevant Periods is as follows:

	Year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Shuanghuanglian Oral Solutions	184,563	271,857	257,533
Shuanghuanglian Injections	109,007	88,745	92,837
Others	<u>75,064</u>	<u>81,386</u>	<u>102,210</u>
	<u><u>368,634</u></u>	<u><u>441,988</u></u>	<u><u>452,580</u></u>

The Group's customer base is diversified. There was no revenue from individual customer exceeded 10% of the Group's consolidated revenue in each of financial year ended 31 December 2015, 2016 and 2017. Details of concentrations of credit risk are set out in Note 27(a).

(b) Segment information

The Group has one reportable segment. The Group's revenue is substantially generated from the sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections to customers in the PRC. The Group's operating assets and non-current assets are substantially situated in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

5 OTHER NET INCOME

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Material and scrap sales income, net	2,046	2,327	1,679
Rental income	615	737	410
Financial guarantee issued, net	(959)	5,815	3,319
Government grants	210	210	210
Others	1,339	1,799	300
	<u>3,251</u>	<u>10,888</u>	<u>5,918</u>

6 NET FINANCE COSTS

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Finance income	38,159	36,128	22,765
Less: Finance costs			
— Interest on bank loans	42,389	39,606	28,609
— Bills discount expense	25,355	346	—
	<u>(29,585)</u>	<u>(3,824)</u>	<u>(5,844)</u>

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries and wages	47,085	53,383	56,150
Contributions to defined contribution retirement schemes*	4,753	6,938	6,323
Bonuses and other benefits	41,462	53,748	66,477
	<u>93,300</u>	<u>114,069</u>	<u>128,950</u>

* Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated based on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees.

The Group has no other obligation for the payment of retirement and other post-retirement benefits of employees other than the contributions described above.

(b) Other items

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cost of inventories*	195,357	219,799	200,634
Amortisation of intangible assets	117	200	200
Depreciation of property, plant and equipment	14,946	15,045	15,996
Amortisation of interests in leasehold land held for own use under operating leases	700	700	700
Impairment losses of trade and other receivables	353	520	1,480
Research and development costs	208	501	3,157

* Cost of inventories includes RMB48,420,000, RMB51,441,000, and RMB51,651,000 in 2015, 2016 and 2017 respectively, relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

8 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current tax — PRC Enterprise Income Tax			
Provision for the year	10,199	18,173	19,347
Deferred tax			
Origination and reversal of temporary differences	1,034	397	(62)
	<u>11,233</u>	<u>18,570</u>	<u>19,285</u>

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The Group has no assessable profit in Hong Kong during the Relevant Periods and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate during the Relevant Periods is 16.5%.

In accordance with the Enterprise Income Tax Law ("Income Tax Law") of the PRC, enterprise income tax rate for the Group's PRC subsidiaries during the Relevant Periods is 25%.

According to the relevant PRC income tax law, the Company's subsidiary, Henan Fusen Pharmaceutical was certified as a New and High Technology Enterprise in Henan since 2012, and is entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by Henan Fusen Pharmaceutical will be expired on 2 August 2018.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. The Group has adopted the 10% withholding tax rate for PRC withholding tax purposes.

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Profit before taxation	57,268	114,768	116,336
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	14,317	28,692	29,084
Tax effect of preferential income tax rates applicable to subsidiaries	(5,079)	(10,805)	(11,229)
Non-deductible expense	2,160	1,555	1,928
Non-taxable income	—	(872)	(498)
Additional deductible allowance for purchase of energy saving and environmental protection equipment	(165)	—	—
Income tax expense	11,233	18,570	19,285

9 DIRECTORS' REMUNERATION

Directors' remuneration are as follows:

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contributions	31 December 2015 total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman and Executive Director					
Mr. Cao	—	57	—	4	61
Executive directors					
Mr. Hou Taisheng	—	21	—	4	25
Mr. Fu Jiancheng	—	3	—	4	7
Mr. Chi Yongsheng	—	58	—	4	62
Ms. Meng Qingfen	—	60	—	4	64
Mr. Cao Dudu	—	—	—	—	—
	—	199	—	20	219

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contributions	31 December 2016 total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman and Executive Director					
Mr. Cao	—	76	747	5	828
Executive directors					
Mr. Hou Taisheng	—	9	123	5	137
Mr. Fu Jiancheng	—	52	97	5	154
Mr. Chi Yongsheng	—	56	99	5	160
Ms. Meng Qingfen	—	65	115	5	185
Mr. Cao Dudu	—	—	—	—	—
	—	258	1,181	25	1,464

	Directors' fees <i>RMB'000</i>	Salaries, allowances and benefits in kind <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	31 December 2017 total <i>RMB'000</i>
Chairman and Executive Director					
Mr. Cao	—	112	—	4	116
Executive directors					
Mr. Hou Taisheng	—	82	—	5	87
Mr. Fu Jiancheng	—	88	—	5	93
Mr. Chi Yongsheng	—	89	—	5	94
Ms. Meng Qingfen	—	99	—	5	104
Mr. Cao Dudu	—	—	—	—	—
Non-executive Director					
Mr. Wang Jianhang	—	—	—	—	—
	—	470	—	24	494

Mr. Cao was appointed as chairman and executive director of the Company on 20 November 2016.

Mr. Hou Taisheng, Mr. Chi Yongsheng, Mr. Meng Qingfen, Mr. Fu Jiancheng were appointed as executive director of the Company on 7 April 2017. Mr. Wang Jianhang was appointed as non-executive director of the Company on 22 December 2017 and Mr. Fu Jiancheng ceased to act as executive director on the same date.

Mr. Cao Dudu was appointed as executive director of the Company on 18 January 2013.

All of the directors were key management personnel of the Group during the Relevant Periods and their emoluments disclosed above include those for services rendered by them as the key management personnel.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the years ended 31 December 2015, 2016 and 2017, of the five individuals with the highest emoluments none of them are directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the 5 individuals for each of the year ended 31 December 2015, 2016 and 2017 are as follows:

	Year ended 31 December		
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>
Salaries and allowances	90	126	1,428
Bonuses	5,928	6,827	5,338
Contributions to pension schemes	22	24	36

The emoluments of the 5, 5 and 5 individuals for years ended 31 December 2015, 2016 and 2017 with the highest emoluments are within the following bands:

	Year ended 31 December		
	2015	2016	2017
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
HK\$ Nil – HK\$1,000,000	1	—	—
HK\$1,000,001 – HK\$1,500,000	2	2	3
HK\$1,500,001 – HK\$2,000,000	1	2	1
HK\$2,000,001 – HK\$2,500,000	1	1	1

11 EARNINGS PER SHARE

The calculation of basic earnings per share during the Relevant Periods is based on the profit for the respective year and on the assumption that 600,000,000 ordinary shares of the Company had been issued throughout the Relevant Periods comprising 153,246,304 ordinary shares in issue as at the date of the Prospectus, and 446,753,696 ordinary shares issued pursuant to the capitalisation issue as detailed in the section headed “Share Capital” in the Prospectus.

There were no dilutive potential ordinary shares during the Relevant Periods and, therefore, diluted earnings per share are the same as the basic earnings per share.

12 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

During the years ended 31 December 2015, 2016 and 2017, dividends of RMB13,957,000, RMB163,685,000 and RMB18,222,000 were declared by Henan Fusen Pharmaceutical to its then equity holders.

The rate of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of the Historical Financial Information.

The directors consider that the dividend payments made during the Relevant Periods are not indicative of the future dividend policy of the Group.

13 PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	Buildings and infrastructure	Machinery and equipment	Motor vehicles	Furniture, fixtures, and other equipment	Construction in progress	Sub-total	Interests 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 2015	135,138	71,744	9,357	4,797	655	221,691	34,996	256,687
Additions	—	8,283	562	366	20,159	29,370	—	29,370
Transfers from construction in progress	7,885	440	—	—	(8,325)	—	—	—
Disposals	—	—	(276)	—	—	(276)	—	(276)
At 31 December 2015 and at 1 January 2016	143,023	80,467	9,643	5,163	12,489	250,785	34,996	285,781
Additions	—	1,626	637	111	16,291	18,665	—	18,665
Transfers from construction in progress	28,764	—	—	—	(28,764)	—	—	—
Disposals	—	(12,098)	(176)	—	—	(12,274)	—	(12,274)
At 31 December 2016 and at 1 January 2017	171,787	69,995	10,104	5,274	16	257,176	34,996	292,172
Additions	1,054	5,348	—	138	2,653	9,193	—	9,193
Transfers from construction in progress	1,078	—	—	—	(1,078)	—	—	—
Disposals	—	(376)	—	(4)	—	(380)	—	(380)
At 31 December 2017	173,919	74,967	10,104	5,408	1,591	265,989	34,996	300,985
Accumulated amortisation, depreciation and impairment:								
At 1 January 2015	(33,878)	(27,829)	(3,795)	(975)	—	(66,477)	(5,671)	(72,148)
Charge for the year	(6,671)	(6,970)	(771)	(534)	—	(14,946)	(700)	(15,646)
Written back on disposals	—	—	133	—	—	133	—	133
At 31 December 2015 and at 1 January 2016	(40,549)	(34,799)	(4,433)	(1,509)	—	(81,290)	(6,371)	(87,661)
Charge for the year	(7,041)	(6,731)	(807)	(466)	—	(15,045)	(700)	(15,745)
Written back on disposals	—	10,739	78	—	—	10,817	—	10,817
At 31 December 2016 and at 1 January 2017	(47,590)	(30,791)	(5,162)	(1,975)	—	(85,518)	(7,071)	(92,589)
Charge for the year	(8,626)	(6,241)	(783)	(346)	—	(15,996)	(700)	(16,696)
Written back on disposals	—	311	—	3	—	314	—	314
At 31 December 2017	(56,216)	(36,721)	(5,945)	(2,318)	—	(101,200)	(7,771)	(108,971)
Net book value:								
At 31 December 2015	102,474	45,668	5,210	3,654	12,489	169,495	28,625	198,120
At 31 December 2016	124,197	39,204	4,942	3,299	16	171,658	27,925	199,583
At 31 December 2017	117,703	38,246	4,159	3,090	1,591	164,789	27,225	192,014

Notes:

- (i) All property, plant and equipment owned by the Group are located in the PRC.
- (ii) Interests in leasehold land held for own use under operating leases represent land use rights in the PRC. As at 31 December 2017, the remaining periods of the land use rights ranged from 40 to 44 years.
- (iii) As at 31 December 2015, 2016 and 2017, the Group was applying for certificates of ownership for certain properties, with carrying amount of RMB1,973,000, RMB1,761,000 and RMB1,550,000 as at the end of each reporting period. 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.
- (iv) As at 31 December 2015, 2016 and 2017, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and interests in leasehold land held for own use under operating leases, which had an aggregate carrying amount of RMB66,774,000, RMB86,366,000 and RMB92,287,000 as of 31 December 2015, 2016 and 2017, respectively.
- (v) Construction in progress comprises of costs incurred on property, plant and equipment not yet completed at the end of each reporting period.

14 INTANGIBLE ASSETS

	Technological Know-how RMB'000
Cost:	
At 1 January 2015	—
Additions	<u>2,000</u>
At 31 December 2015 and at 1 January 2016	2,000
Additions	<u>—</u>
At 31 December 2016 and at 1 January 2017	2,000
Additions	<u>—</u>
At 31 December 2017	<u>-----</u> 2,000
Accumulated amortisation:	
At 1 January 2015	—
Charge for the year	<u>(117)</u>
At 31 December 2015 and at 1 January 2016	(117)
Charge for the year	<u>(200)</u>
At 31 December 2016 and at 1 January 2017	(317)
Charge for the year	<u>(200)</u>
At 31 December 2017	<u>-----</u> (517)
Net book value:	
At 31 December 2015	<u>-----</u> 1,883
At 31 December 2016	<u>-----</u> 1,683
At 31 December 2017	<u>-----</u> 1,483

The amortisation charge during the Relevant Periods is included in "General and administrative expenses" in the consolidated statements of profit or loss and other comprehensive income.

15 INVENTORIES

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Raw materials	46,533	43,697	43,238
Work in progress	21,407	21,895	11,398
Finished goods	38,693	35,187	45,870
	<u>106,633</u>	<u>100,779</u>	<u>100,506</u>

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Carrying amount of inventories sold	<u>196,938</u>	<u>220,571</u>	<u>201,427</u>

16 TRADE RECEIVABLES

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Bills receivable*	170,906	80,808	52,418
Trade debtors	39,929	44,672	60,223
Less: allowance for doubtful debts	<u>2,035</u>	<u>2,453</u>	<u>3,526</u>
	<u>208,800</u>	<u>123,027</u>	<u>109,115</u>

* At 31 December 2015, 2016 and 2017, the Group's bills receivable of RMB97,559,000, RMB47,950,000 and RMB25,859,000 were endorsed to suppliers, and RMB24,521,000, Nil and Nil were discounted, which were included in the balances, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables settled.

(a) Aging analysis

As at 31 December 2015, 2016 and 2017, the ageing analysis of trade receivables based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current to 3 months	202,075	117,312	96,786
3 to 6 months	4,016	3,901	7,851
6 to 12 months	2,317	1,746	3,986
Over 12 months	<u>392</u>	<u>68</u>	<u>492</u>
	<u>208,800</u>	<u>123,027</u>	<u>109,115</u>

The credit terms agreed with customers were normally ranged from 1 month to 6 months from the date of billing. No interests are charged on the trade receivables. Further details on the Group's credit policy are set out in Note 27(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see Note 2(h)(i)).

The movement in the allowance for doubtful debts during the Relevant Periods is as follows:

	As at 31 December		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
At 1 January	1,701	2,035	2,453
Impairment loss recognised	334	418	1,073
At 31 December	<u>2,035</u>	<u>2,453</u>	<u>3,526</u>

At 31 December 2015, 2016 and 2017, the Group's trade debtors of RMB2,035,000, RMB2,453,000 and RMB3,526,000 were individually determined to be impaired, respectively. The individually impaired receivables related to customers that were in financial difficulties and management assessed that the receivables could not be recovered. The Group does not hold any collateral over these balances.

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As at 31 December		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Neither past due nor impaired	203,154	118,029	98,826
Less than 3 month past due	3,361	3,525	6,835
More than 3 months but less than 9 months past due	1,999	1,405	3,340
More than 9 months past due	286	68	114
	<u>208,800</u>	<u>123,027</u>	<u>109,115</u>

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.

17 PREPAYMENTS AND OTHER RECEIVABLES

	Note	As at 31 December		
		2015 RMB'000	2016 RMB'000	2017 RMB'000
Amounts due from related parties	29	765,645	152,122	12,477
Prepayments to suppliers		7,293	1,986	5,438
Other receivables		15,023	22,606	23,600
		<u>787,961</u>	<u>176,714</u>	<u>41,515</u>

18 RESTRICTED GUARANTEE DEPOSITS

Restricted guarantee deposits are bank deposits guaranteed to bank for issuance of bank bills.

19 PLEDGED BANK DEPOSITS

Pledged bank deposits are deposits as security for the Group's related party's bank loans, which have been released upon the settlement of relevant bank loans.

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of:

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash on hand	1,675	9	—
Bank deposits	30,894	244,381	474,621
	<u>32,569</u>	<u>244,390</u>	<u>474,621</u>

21 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

	<i>Note</i>	As at 31 December		
		2015	2016	2017
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bills payables		—	—	26,992
Trade payables				
Third parties		168,540	118,903	85,578
Amounts due to related parties	29	3,982	7,831	7,128
		<u>172,522</u>	<u>126,734</u>	<u>119,698</u>

As at 31 December 2015, 2016 and 2017, the ageing analysis of trade and bills payables, based on the date of goods or services that have been acquired in the ordinary course of business from suppliers, is as follows:

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	155,773	103,813	98,874
3 to 6 months	6,418	8,199	6,483
6 to 12 months	6,291	7,742	7,825
More than 1 year	4,040	6,980	6,516
	<u>172,522</u>	<u>126,734</u>	<u>119,698</u>

All trade and bills payables are expected to be settled within one year.

22 ACCRUALS AND OTHER PAYABLES

	Note	As at 31 December		
		2015 RMB'000	2016 RMB'000	2017 RMB'000
Receipts in advance		17,726	29,005	29,381
Accrued charges		4,229	2,020	3,597
Amounts due to related parties	29	17,308	77,790	6,567
Dividends payable		3,189	9,791	3,189
Other tax payables		14,995	33,174	46,771
Salary, bonus and welfare payable		49,605	60,445	75,527
Payables to contractors and equipment suppliers		12,159	10,110	14,648
Deposits from sale staff		5,480	5,565	5,709
Listing expense payables		—	3,439	6,467
Deferred financial guarantees issued*		9,134	3,319	—
Transportation fee payables		1,593	3,676	2,215
Interests payable		3,852	3,523	1,574
Housing fund collected from staff		4,399	4,399	4,302
Fund from local finance bureau**		16,307	5,887	5,887
Payables to suppliers***		11,007	10,919	10,526
Others		25,159	17,797	18,998
		<u>196,142</u>	<u>280,859</u>	<u>235,358</u>

* An analysis of the movements of deferred financial guarantees issued, as disclosed in note 2 (p)(i) and note 28(c), for the respective years is as follows:

	As at 31 December		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Balance at the beginning of the year	8,175	9,134	3,319
Addition during the year	14,003	9,556	3,750
Amortisation during the year	<u>(13,044)</u>	<u>(15,371)</u>	<u>(7,069)</u>
Balance at the end of the year	<u>9,134</u>	<u>3,319</u>	<u>—</u>

** These are interest free and repayable on demand.

*** These are long aged payables (over 3 years as at 31 December 2017) to various suppliers. The Group is in the process of clearing off these balances.

All of the accruals and other payables are expected to be settled or recognised as profit or loss within one year or are repayable on demand.

23 BILLS PAYABLES UNDER FINANCING ARRANGEMENT

	As at 31 December		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Bank bills	<u>20,000</u>	<u>—</u>	<u>—</u>

During the year ended 31 December 2015, the Group entered into credit agreements with certain banks in the PRC ("Endorsing Banks"). Under these arrangements, the Group obtained funds through issuing bank bills (within the credit limits stipulated by the Endorsing Banks and supported by the initial deposits made by the Group) to the suppliers but used certain of the

proceeds for purposes other than for payment of the purchases from the suppliers. The total amount of funds obtained from such arrangement was RMB561,000,000 for the year ended 31 December 2015. There were no such financing arrangement during the year ended 31 December 2016 and 2017.

24 BANK AND OTHER LOANS

	Note	As at 31 December					
		2015		2016		2017	
		Effective interest rate	RMB'000	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Current							
Borrowings from banks							
— secured	(i)	4.79–7.02%	103,130	4.79%	100,000	4.79–5.35%	60,000
— unsecured	(ii)	4.79–7.02%	488,011	4.79–7.20%	321,000	4.57–6.09%	300,000
Add: current portion of non-current borrowings		6.90%	1,000	5.23–7.02%	150,492		—
Other borrowings	(iii)		<u>24,521</u>		<u>—</u>		<u>—</u>
Total			<u>616,662</u>		<u>571,492</u>		<u>360,000</u>
Non-current							
Borrowings from banks							
— secured	(i)	5.23%	90,000	5.23–6.37%	101,078		—
— unsecured	(ii)	6.90–7.02%	60,600	6.90–7.02%	78,600	7.02%	31,600
Less: current portion of non-current borrowings		6.90%	<u>1,000</u>	5.23–7.02%	<u>150,492</u>		<u>—</u>
Total			<u>149,600</u>		<u>29,186</u>		<u>31,600</u>

As at 31 December 2015, 2016 and 2017, the borrowings were repayable as follows:

	As at 31 December		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Within 1 year or on demand	616,662	571,492	360,000
After 1 year but within 2 years	149,600	20,023	—
After 2 years but within 5 years	—	3,242	31,600
After 5 years	<u>—</u>	<u>5,921</u>	<u>—</u>
	<u>766,262</u>	<u>600,678</u>	<u>391,600</u>

- (i) These borrowings were secured by the Group's property, plant and equipment and interests in leasehold land held for own use under operating leases and related party's property, plant and equipment and interests in leasehold land held for own use under operating leases. As at 31 December 2015, 2016 and 2017, loans of RMB90,000,000, RMB101,077,000 and RMB40,000,000 was also guaranteed by Mr. Cao, Ms. Quan Xiufeng (Mr. Cao's spouse) and other related parties.
- (ii) These borrowings were guaranteed by third parties and/or related parties.
- (iii) Other borrowings represented the balance of discounted bill receivables at the end of each reporting period.

25 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	As at 31 December		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
At 1 January	8,980	11,481	15,543
Provision for PRC Income Tax for the year	10,199	18,173	19,347
PRC Income Tax paid during the year	<u>(7,698)</u>	<u>(14,111)</u>	<u>(17,968)</u>
At 31 December	<u>11,481</u>	<u>15,543</u>	<u>16,922</u>

(b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the Relevant Periods are as follows:

	Government grants RMB'000	Provision for bad debt RMB'000	Depreciation and amortization RMB'000	Impairment for property, plant and equipment RMB'000	Others RMB'000	Total RMB'000
Deferred tax arising from:						
At 1 January 2015	162	262	3,015	1,128	1,776	6,343
(Charged)/Credited to profit or loss	<u>(32)</u>	<u>53</u>	<u>(215)</u>	<u>(264)</u>	<u>(576)</u>	<u>(1,034)</u>
At 31 December 2015	<u>130</u>	<u>315</u>	<u>2,800</u>	<u>864</u>	<u>1,200</u>	<u>5,309</u>
At 1 January 2016	130	315	2,800	864	1,200	5,309
(Charged)/Credited to profit or loss	<u>(32)</u>	<u>78</u>	<u>(215)</u>	<u>(264)</u>	<u>36</u>	<u>(397)</u>
At 31 December 2016	<u>98</u>	<u>393</u>	<u>2,585</u>	<u>600</u>	<u>1,236</u>	<u>4,912</u>
At 1 January 2017	98	393	2,585	600	1,236	4,912
(Charged)/Credited to profit or loss	<u>(32)</u>	<u>222</u>	<u>(215)</u>	<u>(264)</u>	<u>351</u>	<u>62</u>
At 31 December 2017	<u>66</u>	<u>615</u>	<u>2,370</u>	<u>336</u>	<u>1,587</u>	<u>4,974</u>

(c) Deferred tax liabilities not recognised

Pursuant to Enterprise Income Tax Law in the PRC and its related regulations, the Group is subject to withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from its PRC subsidiaries in respect of their profits generated and on distribution of statutory surplus reserve upon liquidation. As at 31 December 2017, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted to RMB124,440,000 comprised retained profit of RMB81,550,000 and statutory surplus reserve of RMB42,890,000. No deferred tax liabilities were recognised as at 31 December 2017 as the Company controls the dividend policy of these subsidiaries and it has been determined that retained profit as at 31 December 2017 of these subsidiaries will not be distributed in the foreseeable future, and the Company has no plan to liquidate these subsidiaries in the foreseeable future.

26 CAPITAL, RESERVES AND DIVIDENDS**(a) Share capital**

The Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on 18 January 2013. Upon incorporation, the initial authorised share capital was HK\$380,000 and divided into 38,000,000 shares with a par value of HK\$0.01 each, of which one share was allotted and issued at par. On 26 February 2013, the Company allotted and issued 780 shares to Full Bliss fully paid at par as consideration for the acquisition of one share in Jinli International Limited.

On 24 June 2013, the Company allotted and issued 70,879,219 shares to Full Bliss Holdings Limited ("Full Bliss") at a cash consideration of HK\$708,792 (RMB565,000) which was fully paid up.

On 21 November 2016, the issued share capital of the Company was increased from HK\$708,800 to HK\$920,320 (RMB753,000) by the subscription of additional 21,152,000 shares by Full Bliss. Immediately after the said share subscription and as at 31 December 2016, the number of shares in issue increased to 92,032,000 shares, with a par value of HK\$0.01.

On 5 December 2016, Wealth Depot (Hong Kong) Limited agreed to acquire approximately 6.66% equity interest in Henan Fusen Pharmaceutical at a cash consideration of RMB7,481,900. The full amount was injected into Henan Fusen Pharmaceutical in March 2017, of which RMB5,057,400 was credited as the share capital of Henan Fusen Pharmaceutical and RMB2,424,500 was credited as capital reserve (included in other reserve). On 19 March 2017, the Company allotted and issued 6,566,672 shares to Wealth Depot Limited to acquire 100% equity interest of Wealth Depot (Hong Kong) Limited. Immediately after the said share subscription, the number of shares in issue increased to 98,598,672 shares, with a par value of HK\$0.01.

On 19 March 2017, the Company, through its subsidiary, acquired approximately 93.34% of the equity interest in Henan Fusen Pharmaceutical at a cash consideration of RMB92,032,000. Such consideration was fully settled on 29 March 2017.

Immediately after the above equity transfer, Henan Fusen Pharmaceutical became the wholly-owned subsidiary of the Company and the Reorganisation was completed.

On 10 August 2017, the Company allotted and issued 44,441,428 shares to One Victory Investments Limited (One Victory), which is wholly owned by Mr. Cao Dudu and 10,206,204 shares to First Joint Elegant Limited at a consideration of RMB50,929,876 and RMB11,696,310 respectively, of which RMB463,139 was credited as the share capital of the Company and RMB 62,163,047 was credited as the share premium. Immediately after such issue and allotment, the total number of shares in issue was 153,246,304. The said consideration was duly settled by One Victory and First Joint Elegant on December 2, 2017 and November 7, 2017, respectively.

For the purpose of this Historical Financial Information, the share capital in the consolidated statement of financial position as at 31 December 2015 and 2016 represented the aggregate amount of the issued share capital of Henan Fusen Pharmaceutical and the Company. The share capital as at 31 December 2017 represented the issued share capital of the Company.

(b) Share premium

Share premium represented the difference between the par value of shares issued and the amount of net proceeds received from its shareholders of the Company.

(c) Statutory surplus reserves

Pursuant to applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to the statutory surplus reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory surplus reserve must be made before distribution of dividends to shareholders. The statutory surplus can be utilised to offset accumulated losses or to increase capital of the subsidiaries and is non-distributable other than in liquidation.

(d) Other reserves

Other reserves as at the end of the reporting period mainly included contributions by the shareholders, payment to the then equity holders upon the Reorganisation as described in Note 26(a) after eliminating the share capital of Henan Fusen Pharmaceutical, and the difference between the considerations paid by the Group and the share of net assets value of the subsidiary acquired from the non-controlling interests.

(e) Exchange reserve

The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policies set out in Note 2(r).

(f) Reserves of the Company

	<i>Note</i>	Share premium <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2015		—	6	—	6
Other comprehensive income		—	23	—	23
Balance at 31 December 2015 and 1 January 2016		—	29	—	29
Other comprehensive income		—	42	—	42
Balance at 31 December 2016 and 1 January 2017		—	71	—	71
Loss for the year		—	—	(315)	(315)
Other comprehensive income		—	(337)	—	(337)
Capital injection	26(a)	69,586	—	—	69,586
Balance at 31 December 2017		<u>69,586</u>	<u>(266)</u>	<u>(315)</u>	<u>69,005</u>

(g) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder 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 bank deposits. Adjusted capital comprises all components of equity.

The Group's adjusted net debt-to-capital ratio at 31 December 2015, 2016 and 2017 was as follows:

	Note	As at 31 December		
		2015 RMB'000	2016 RMB'000	2017 RMB'000
Current liabilities:				
Bank and other loans	24	616,662	571,492	360,000
Bills payables under financing arrangement	23	20,000	—	—
Non-current liabilities:				
Bank loans	24	<u>149,600</u>	<u>29,186</u>	<u>31,600</u>
Total debt		786,262	600,678	391,600
Less: Cash and cash equivalents	20	32,569	244,390	474,621
Restricted guarantee deposits	18	<u>20,202</u>	<u>—</u>	<u>26,992</u>
Adjusted net debt		<u>733,491</u>	<u>356,288</u>	<u>(110,013)</u>
Total equity		<u>194,195</u>	<u>126,609</u>	<u>182,777</u>
Adjusted net debt-to-equity ratio		<u>378%</u>	<u>281%</u>	<u>N/A</u>

Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT

Exposure to credit, liquidity, and interest rate risks arises in the normal course of the Group's business. The Group is not exposed to significant currency risk.

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 receivables, amount due from related parties, other receivables and pledged bank deposits. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade 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. Trade receivables are normally due within 1 to 6 months from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. 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. As at 31 December 2015, 2016 and 2017 the amount of trade receivables from the five largest debtors represented 9%, 9% and 10% of the total trade receivables respectively.

Amount due from related parties are mainly loans to companies controlled by Mr. Cao or Mr. Cao Dudu. Details are disclosed in Note 29.

Pledged bank deposits are pledged for the loans to companies controlled by Mr. Cao. Details are disclosed in Note 24.

Except for the financial guarantees given by the Group as set out in Note 28(c), the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting periods is disclosed in Note 28(c).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 16 and Note 17.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management. 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 and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Company can be required to pay:

As at 31 December 2015						
contractual undiscounted cash outflow						
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amounts in the consolidated statement of financial position
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	644,294	154,583	—	—	798,877	766,262
Bills payables under financing arrangement	20,000	—	—	—	20,000	20,000
Trade and bills payables	172,522	—	—	—	172,522	172,522
Accruals and other payables	178,416	—	—	—	178,416	178,416
Total	1,015,232	154,583	—	—	1,169,815	1,137,200
As at 31 December 2016						
contractual undiscounted cash outflow						
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amounts in the consolidated statement of financial position
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	592,865	21,516	4,702	6,792	625,875	600,678
Trade and bills payables	126,734	—	—	—	126,734	126,734
Accruals and other payables	251,854	—	—	—	251,854	251,854
Total	971,453	21,516	4,702	6,792	1,004,463	979,266

As at 31 December 2017
contractual undiscounted cash outflow

	Within 1 year	More than 1	More than 2	More than 5	Total	Carrying
	or on demand	year but less	years but less	years		amounts in the
	RMB'000	than 2 years	than 5 years	RMB'000		consolidated
		RMB'000	RMB'000	RMB'000	RMB'000	statement of
						financial
						position
						RMB'000
Bank and other loans	370,238	2,249	33,103	—	405,590	391,600
Trade and bills payables	119,698	—	—	—	119,698	119,698
Accruals and other payables	205,977	—	—	—	205,977	205,977
Total	695,913	2,249	33,103	—	731,265	717,275

(c) **Interest rate risk**

The Group's interest rate risk arises primarily from bank loans. Borrowings issued 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 profile 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 net interest-bearing liabilities (being interest-bearing financial liabilities less restricted guarantee deposits and pledged bank deposits) at the end of the reporting Periods:

	As at 31 December					
	2015		2016		2017	
	<i>Effective</i> <i>interest rate</i>	<i>RMB'000</i>	<i>Effective</i> <i>interest rate</i>	<i>RMB'000</i>	<i>Effective</i> <i>interest rate</i>	<i>RMB'000</i>
Net fixed rate borrowings:						
Bank loans	4.79–7.02%	741,741	4.79–7.20%	600,678	4.57–7.02%	391,600
Bills payables under financing arrangement	3.35–5.60%	20,000	—	—	—	—
Less: Restricted guarantee deposits	1.35%	20,202	—	—	1.30%	26,992
Pledged bank deposits	—	—	1.50%	300,000	—	—
Total		741,539		300,678		364,608

(ii) *Sensitivity analysis*

Increases in interest rates will increase the cost of new borrowing, and therefore could have an adverse effect on the Group's financial position. For the year ended 31 December 2015, 2016 and 2017, if interest rates on the short-term fixed rate borrowings had increased/decreased 50 basic points while all other variables are held constant, the effect on profit after tax is approximately RMB2,512,000, RMB1,789,000 and RMB1,530,000 respectively.

(d) **Fair values measurement**

The Group does not have any financial instruments measured at fair value at 31 December 2015, 2016 and 2017.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2015, 2016 and 2017.

28 COMMITMENTS AND CONTINGENT LIABILITIES

- (a) Capital commitments outstanding at 31 December 2015, 2016 and 2017 not provided for in the Historical Financial Information were as follows:

	As at 31 December		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Contracted for	11,570	—	4,348
Authorised but not contracted for	<u>11,789</u>	<u>7,940</u>	<u>—</u>
Total	<u><u>23,359</u></u>	<u><u>7,940</u></u>	<u><u>4,348</u></u>

- (b) At 31 December 2015, 2016 and 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December		
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Within one year	200	200	228
After one year but within five years	800	800	200
After five years	<u>1,200</u>	<u>1,000</u>	<u>—</u>
	<u><u>2,200</u></u>	<u><u>2,000</u></u>	<u><u>428</u></u>

The Group is the lessee in respect of land use right from Nanyang Fusen Magnesium Powder Limited under operating leases. The leases runs for an initial period of 20 years, at the end of such period all terms are renegotiated. In 2017, the lease period has been revised to 3 years. None of the leases includes contingent rentals.

(c) **Financial guarantees issued**

As at 31 December 2015 and 2016 the Group has issued several cross guarantees to banks in respect of banking facilities granted to several third parties or a related party. The maximum liability of the Group under these guarantees is represented by the facilities drawn down by the borrowers amounting to RMB933,490,000 and RMB1,085,997,000 respectively as at 31 December 2015 and 2016.

All these financial guarantees issued have been released in 2017 and there is no financial guarantees issued by the Group for third parties or related parties as at 31 December 2017.

29 MATERIAL RELATED PARTY TRANSACTIONS

During the Relevant Periods, transactions with the following parties are considered to be related party transactions:

Name of party	Relationship with the Group
Mr. Cao	Controlling shareholder of the Company
Ms. Quan Xiufeng	Mr. Cao's spouse
Mr. Cao Dudu	Executive director and Mr. Cao's son
Nanyang Fusen Magnesium Powder Limited 南陽福森鎂粉有限公司	Controlled by Mr. Cao
Henan Fusen Organic Forestry and Fruit Limited 河南福森有機農林果業有限公司	Controlled by Mr. Cao
Xichuan Fusen Goods and Materials Limited 浙川縣福森物資有限公司	Controlled by Mr. Cao
Henan Fusen Advertising Limited 河南福森廣告有限公司	Controlled by Mr. Cao
Xichuan Real Estate Development Limited 浙川縣福森房地產開發有限公司	Controlled by Mr. Cao
Henan Fusen New Energy Technology Limited 河南福森新能源科技有限公司	Controlled by Mr. Cao Dudu
Xichuan Danyangying Hotel Limited 福森藥業浙川縣丹陽迎賓館有限公司	Controlled by Mr. Cao
Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited 浙川縣福森中藥材種植開發有限公司	Controlled by Mr. Cao
Henan Danjiang Daguanyuan Tourism Limited 河南丹江大觀苑旅遊有限公司	Controlled by Mr. Cao
Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司) (formerly known as: Henan Fusen Food & Beverage Co. Ltd. (河南福森食品飲料有限公司))	Controlled by Mr. Cao
Henan Fusen Shiye Limited 河南福森實業有限公司	Controlled by Mr. Cao
Henan Fusen Property Service Limited 河南福森物業服務有限公司	Controlled by Mr. Cao
Nanyang Fusen Commercial Loan Consultation Limited 南陽福森貸商務諮詢有限公司	Controlled by Mr. Cao
Nanyang Jiayi Lithium Battery Material Sales Limited 南陽嘉益鋰電材料銷售有限公司	Controlled by Mr. Cao Dudu
Henan Fusen General Airport Limited* 河南福森通用機場有限公司	Controlled by Mr. Cao
Xichuan Hongxinda Building Material Limited* 浙川縣鴻興達建材有限公司	Controlled by Mr. Cao
Henan Fusen Holiday Inn Limited* 河南福森半島假日酒店有限公司	Controlled by Mr. Cao
Henan Fusen General Aviation Limited* 河南福森通用航空有限公司	Controlled by Mr. Cao
Shanghai Jia Luan Trading Limited* 上海嘉巒貿易有限公司	Controlled by Mr. Cao

Note:

- (i) The English translation of the names is for reference only. The official names of these entities are in Chinese.

In addition to the transactions disclosed elsewhere in the Historical Financial Information, the Group has entered into the following material related party transactions during the Relevant Periods:

(a) Transactions with related parties

	Note	As at 31 December		
		2015 RMB'000	2016 RMB'000	2017 RMB'000
Purchase of goods	(i)	9,407	33,936	24,271
Sales of package materials	(ii)	—	504	—
Receiving ancillary services	(iii)	2,976	2,148	347
Provision of centralised services	(iv)	1,363	2,083	—
Loans to related parties	(v)	372,340	256,804	319,714
Repayment of loans by related parties	(v)	426,031	866,963	458,952
Interest income on fundings to related parties	(vi)	29,874	35,815	21,325
Loan from related parties	(vii)	14,051	70,619	21,118
Repayment of loans to related parties	(vii)	29	10,137	92,341

Notes:

- (i) Mainly represent the amount of medicinal herbs (*Ionicera japonica* and baikal skullcap root) purchased from Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (浙川縣福森中藥材種植開發有限公司), herbal drinking from Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司) and some materials from 浙川縣福森物資有限公司. Purchase of medicinal herbs from Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (浙川縣福森中藥材種植開發有限公司) are recurring transactions.
- (ii) Represent the amount of packing material sold to Henan Fusen New Energy Technology Limited (河南福森新能源科技有限公司).
- (iii) Represent amounts paid and payable to Henan Danjiang Daguanyuan Tourism Limited (河南丹江大觀苑旅遊有限公司), and Xichuan Danyangying Hotel Limited (福森藥業浙川縣丹陽迎賓館有限公司) in respect of ancillary services such as accommodation and catering.
- (iv) Represent amounts received and receivable from related parties for cost associated with centralised services of rental lease and HR management provided by Henan Fusen Pharmaceutical Company Limited (河南福森藥業有限公司).
- (v) Represent fund provided to and repaid by related parties. Some of certain loans bore interest with rate of 8.40%, 8.40% and 7.20% for each of the year ended 31 December 2015, 2016 and 2017. The other funds are non-interest bearing. All the funds are required to repay on demand.
- (vi) Represent interest income from the interest-bearing fund provided to related parties mentioned in (v).
- (vii) Represent non-interest bearing fund received from and repaid to Henan Fusen New Energy Technology Limited (河南福森新能源科技有限公司), Henan Fusen Property Service Limited (河南福森物業服務有限公司), Henan Fusen Shiye Limited (河南福森實業有限公司), Henan Danjiang Daguanyuan Tourism Limited (河南丹江大觀苑旅遊有限公司) and Xichuan Real Estate Development Limited (浙川縣福森房地產開發有限公司).
- (viii) The English translation of the names is for reference only. The official names of these entities are in Chinese.

(b) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	199	258	1,716
Retirement benefits	20	25	40
Bonuses	—	1,181	—
	<u>219</u>	<u>1,464</u>	<u>1,756</u>

Total remuneration is disclosed in "staff costs" (see Note 7(a)).

(c) Balances with related parties

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepayment and other receivables	<u>765,645</u>	<u>152,122</u>	<u>12,477</u>
Total amounts due from related parties	<u>765,645</u>	<u>152,122</u>	<u>12,477</u>
Trade and bills payables	3,982	7,831	7,128
Accruals and other payables	<u>17,308</u>	<u>77,790</u>	<u>6,567</u>
Total amounts due to related parties	<u>21,290</u>	<u>85,621</u>	<u>13,695</u>

Except for loans to related parties, other amounts due to or from related parties are unsecured, interest-free and repayable or receivable on demand.

(d) Financial guarantees/bank deposits balances with related parties*(i) Financial guarantees and pledges provided to the Group in respect of banking facilities*

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Financial guarantees	220,011	126,000	182,200
Pledges	64,884	64,884	35,400

When the borrowings are guaranteed by related parties and secured by related parties' property, plant and equipment and interests in leasehold land held for own use under operating leases simultaneously, the pledges provided by related parties is based on the appraised amount of relevant assets on the pledge contracts.

At the date of report, the above financial guarantees provided by the related parties as at 31 December 2017 have been released by repayment of the principal of the borrowings with the amount of RMB47,600,000, the financial guarantees and pledges provided for the remaining borrowings of RMB170,000,000 will be released by the relevant banks upon the initial listing of the shares of the Company on the Stock Exchange as agreed with the banks in January 2018.

(ii) *Financial guarantee provided by the Group and bank deposits of the Group pledged for related parties*

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Financial guarantees	—	32,000	—
Bank deposits	—	300,000	—

30 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2017, the directors consider the immediate parent of the Company to be Full Bliss Holdings Limited and the ultimate controlling shareholder of the Company to be Mr. Cao Changcheng. Full Bliss Holdings Limited is incorporated in British Virgin Islands, which does not produce financial statements available for public use.

31 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 report, 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 the Historical Financial Information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual Improvements to IFRSs 2014–2016 cycle	
— IFRS 1 First-time Adoption of International Financial Reporting Standards	
— IAS 28 Investments in Associates and Joint Ventures	1 January 2018
IFRS 15, <i>Revenue From Contracts with Customers</i>	1 January 2018
IFRS 9, <i>Financial Instruments</i>	1 January 2018
IFRIC 22, Foreign currency transactions and advance consideration	1 January 2018
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 4, Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts	1 January 2018
Amendments to IAS 40, <i>Transfers of Investment Property</i>	1 January 2018
IFRS 16, <i>Leases</i>	1 January 2019
IFRIC 23, <i>Uncertainty over Income Tax Treatment</i>	1 January 2019
Amendments to IFRS 10 and IAS 28, <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	To be determined*

* The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements. The Group is currently assessing the impacts of adopting IFRS 15 on its financial statements has identified the following areas which are likely to be affected:

— *Sale of goods*

As disclosed in Note 2(q)(i), for the Group's sale of goods, revenue is currently recognised when the goods are delivered at the customers' premises, which is taken to be the point in time when the customer accepts the goods and the related risks and rewards of ownership.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

IFRS 15 allows for two transition methods, namely the full retrospective method and the cumulative effect transition method with the cumulative effect from initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application. The Group plans to elect to use the cumulative effect transition method for the adoption of IFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by IFRS 15, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018.

Based on the assessment, the adoption of IFRS 15 will not have a significant impact on the Group's timing of revenue recognition.

IFRS 9, Financial instruments

IFRS 9 replaces the existing guidance in IAS 39, Financial instruments: Recognition and measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

(a) *Classification and measurement*

IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

Based on the assessment, the Group expects that its financial assets currently measured at amortised cost and FVTOCI will continue with their classification and measurements upon the adoption of IFRS 9. The Group currently does not have any financial assets classified as FVTPL.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, except that IFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement may not have any impact on the Group on adoption of IFRS 9.

(b) *Impairment*

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would increase as compared with that recognised under IAS 39. As a consequence, an adjustment ranging from RMB1 million to RMB1.5 million will be made to the opening balances of net assets and retained profits at 1 January 2018.

IFRS 16, Leases

As disclosed in Note 2(g), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term. IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 28, as at 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB428,000 for properties, the majority of which is payable either within 1 year or between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted.

The Group has started an assessment of the potential impact on its consolidated financial statements. The management assessed that the adoption of IFRS16 on 1 January 2019 would not significantly affect the financial position and performance of the Group after considering the amount of the future minimum lease payments for the lease contracts held on 31 December 2017 as disclosed above.

32 SUBSEQUENT EVENTS

(i) Capitalisation Issue

Pursuant to the resolutions of the shareholders passed on 14 June 2018, subject to the share premium account of our Company being credited as a result of the global offering, the directors are authorised to allot and issue a total of 446,753,696 shares credited as fully paid at par to Full Bliss, Rayford, Wealth Depot, One Victory, First Joint Elegant and China Resources Pharmaceutical Fund (save that no shareholder shall be entitled to be allotted or issued any fraction of a share) by way of capitalisation of the sum of HK\$4,467,536.96 standing to the credit of the share premium account of the Company, and our shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2017.

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I in this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I in this prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets is prepared in accordance with paragraph 4.29 of the Listing Rules and is set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets attributable to equity shareholders of the Company as if it had taken place on 31 December 2017. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the Global Offering been completed as at 31 December 2017 or at any future dates.

	Consolidated net tangible assets attributable to equity shareholders of the Company as at 31 December 2017⁽ⁱ⁾ RMB'000	Estimated net proceeds from the Global Offering⁽ⁱⁱ⁾ RMB'000	Unaudited pro forma adjusted consolidated net tangible assets RMB'000	Unaudited pro forma adjusted consolidated net tangible assets per Share⁽ⁱⁱⁱ⁾ RMB HK\$^(iv)	
Base on the Offer Price of HK\$2.0 per Share	<u>179,082</u>	<u>293,714</u>	<u>472,796</u>	<u>0.59</u>	<u>0.72</u>
Base on the Offer Price of HK\$3.0 per Share	<u>179,082</u>	<u>450,006</u>	<u>629,088</u>	<u>0.79</u>	<u>0.96</u>

Notes:

- (i) The consolidated net tangible assets attributable to equity shareholders of the Company as at 31 December 2017 is based on the consolidated net assets of our Company of RMB182,777,000 as at 31 December 2017 after deduction of non-controlling interests of RMB2,212,000 and intangible assets of RMB1,483,000, as shown in the Accountants' Report as set out in Appendix I in this prospectus.
- (ii) The estimated net proceeds from the Global Offering are based on the Offer Shares and the estimated Offer Prices of HK\$2.0 and HK\$3.0, respectively, after deduction of the underwriting fees and related expenses payable by our Company and without taking into account any Shares that may be issued upon exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme. The estimated net proceeds from the Global

Offering is converted into Renminbi at an exchange rate of HK\$0.81835 to RMB1 published by PBOC prevailing on 19 June 2018. No representation is made that Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rate or at all.

- (iii) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments for the estimated net proceeds from the Global Offering payable to our Company as described in note (ii) and on the basis that 800,000,000 Shares were in issue assuming that the Global Offering was completed on 31 December 2017 (including Shares in issue as of the Date of this prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalization Issue) without taking into account of any Shares which may be issued upon exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme.
- (iv) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of HK\$0.81835 to RMB1 published by PBOC prevailing on 19 June 2018. No representation is made that Reminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rate or at all.
- (v) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group subsequent to 31 December 2017.

(B) REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 pro forma financial information for the purpose in this prospectus.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF FUSEN PHARMACEUTICAL COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Fusen Pharmaceutical Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 31 December 2017 and related notes as set out in Part A of Appendix II to the prospectus dated 28 June 2018 (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 31 December 2017 as if the Global Offering had taken place at 31 December 2017. As part of this process, information about the Group's financial position as at 31 December 2017 has been extracted by the Directors from the Group's historical financial information 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").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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 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 31 December 2017 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 Plan 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

28 June 2018

**SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS
COMPANY LAW**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on January 18, 2013 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and its Amended and Restated Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on June 14, 2018 with effect from Listing. A summary of certain provisions of the Articles is set out below.

(a) Shares*(i) Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a

shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so canceled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognize any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board

shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or installment of a call on the day appointed for payment, the Board may, for so long as any part of the call or installment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or installment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors

(i) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the "retirement by rotation" provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or

(hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other

special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or

owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its

subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member

(i) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorized corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorized by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(v) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorized officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favor of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) **Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarized financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and

- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, installments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by check or warrant sent through the post. Every such check or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the check or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or installments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending checks for dividend entitlements or dividend warrants by post if such checks or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a check or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarized in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The

liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on January 18, 2013 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancelation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;

- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorize the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as canceled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either canceled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from February 5, 2013.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarizes certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

(A) FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on January 18, 2013. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on February 27, 2017 and our principal place of business in Hong Kong is at 29/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. Mr. Cao Dudu of Flat B, 43/F, South Tower 5, Residence Bel-Air, 38 Bel-Air Avenue, Island South, Hong Kong and Mr. Leung Wai Fung Joseph of Flat E, 2/F, Block 9, Yee Ngar Court, South Horizons, 9 South Horizons Drive, Ap Lei Chau, Hong Kong have been appointed as the authorized representatives of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, our Company is subject to the relevant laws of the Cayman Islands and the constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Company Law and certain provisions of the Articles is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

- (a) As at the date of incorporation of our Company, the authorized share capital was HK\$380,000 divided into 38,000,000 Shares of par value HK\$0.01 each. One Share was allotted and issued fully paid at par to the subscriber to the Memorandum and Articles of Association on January 18, 2013. On the same day, the said subscriber transferred the one Share to Full Bliss.
- (b) On February 28, 2013, our Company allotted and issued 780 Shares to Full Bliss fully paid at par as consideration for the acquisition of one Share in Jinli by our Company.
- (c) On June 24, 2013, it was resolved that the authorized share capital of our Company was increased from HK\$380,000 to HK\$3,000,000 by the creation of an additional 262,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects.
- (d) On June 24, 2013, our Company allotted and issued 70,879,219 Shares to Full Bliss at a cash consideration of HK\$708,792.19 which was fully paid up. Immediately after such issue and allotment, the number of Shares in issue was 70,880,000.
- (e) On November 21, 2016, our Company allotted and issued 21,152,000 Shares to Full Bliss at a cash consideration of HK\$211,520 which was fully paid up. Immediately after such allotment, the number of Shares in issue was 92,032,000.
- (f) On March 19, 2017, our Company allotted and issued 6,566,672 Shares to Wealth Depot as consideration shares for the acquisition of 100% shareholding of Wealth Depot (HK) by Jinli on the same day. After such issue and allotment, the total number of Shares in issue was 98,598,672.

- (g) On August 10, 2017, our Company allotted and issued 44,441,428 Shares to One Victory and 10,206,204 Shares to First Joint Elegant at a cash consideration of RMB50,929,876.488 and RMB11,696,309.784, respectively. Immediately after such issue and allotment, the total number of Shares in issue was 153,246,304.
- (h) On June 14, 2018, our Shareholders resolved to increase the authorized share capital of our Company from HK\$3,000,000 to HK\$20,000,000 by the creation of an additional 1,700,000,000 Shares each ranking pari passu with our Shares then in issue in all respects.
- (i) Immediately following completion of the Global Offering and the Capitalization Issue (but taking no account of any shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), 800,000,000 Shares will be issued fully paid or credited as fully paid, and 1,200,000,000 Shares will remain unissued.
- (j) Other than pursuant to the general mandate to issue Shares referred to in the paragraph “(A) Further information about our Company — 3. Written resolutions of our Shareholders passed on June 14, 2018” in this appendix, and pursuant to the Share Option Scheme, our Company does not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.
- (k) Save as disclosed in this prospectus, there has been no alteration in our Company’s share capital since its incorporation.

3. Written resolutions of our Shareholders passed on June 14, 2018

By written resolutions of our Shareholders passed on June 14, 2018:

- (a) our Company approved and adopted the Memorandum and the Articles, the material terms of which are summarized in Appendix III to this prospectus;
- (b) our Company increased its authorized share capital from HK\$3,000,000 to HK\$20,000,000 by the creation of additional 1,700,000,000 Shares, each ranking pari passu with the Shares then in issue in all respects;
- (c) conditional on the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and our Shares to be issued as mentioned in this prospectus (including any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme) and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
 - (i) the Global Offering and the grant of the Over-allotment Option was approved and our Directors were authorized to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option, each ranking pari passu with the then existing Shares in all respects;

- (ii) conditional further on the share premium account of our Company being credited as a result of the Global Offering or otherwise having sufficient balance, the Capitalization Issue was approved, and our Directors were authorized to capitalize an amount of HK\$4,467,536.96 standing to the credit of the share premium account of our Company to pay up in full at par 446,753,696 Shares for allotment and issue to Full Bliss, Rayford, Wealth Depot, One Victory, First Joint Elegant and China Resources Pharmaceutical Fund, in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing shareholdings in our Company, and the Shares allotted and issued shall rank pari passu in all respects with the then existing issued Shares, and our Directors were authorized to give effect to the Capitalization Issue; and
- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “(D) Share Option Scheme” in this appendix, were approved and adopted and our Directors were authorized, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
- (d) general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Share allotted in lieu of the whole or part of a dividend on our Shares in accordance with the Articles or pursuant to a specific authority granted by our Shareholders or pursuant to the Global Offering, Shares with an aggregate nominal value not exceeding 20% of the number of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue but excluding any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, and such mandate to remain in effect until the earliest of:
 - (i) the conclusion of the next annual general meeting of our Company; or
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting;
- (e) a general unconditional mandate was given to our Directors authorizing them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC

and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate of the number of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue but excluding any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, and such mandate to remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company; or
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting; and
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate number of Shares which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate of the number of Shares in issue immediately following completion of the Global Offering and Capitalization Issue but excluding any Shares to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme.

4. Corporate Reorganization

The companies comprising our Group underwent the Reorganization to rationalize our Group's structure in preparation for the Listing, pursuant to which our Company became the holding company of our Group. The key steps of the Reorganization are set out in the section headed "History, Reorganization and Corporate Structure — Reorganization" in this prospectus.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed above, and save as mentioned in the paragraph headed "(A) Further information about our Company — 4. Corporate reorganization" in this appendix and in the section headed "History, Reorganization and Corporate Structure" in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Further information about the Group's PRC subsidiaries

The Company has the following subsidiaries established in the PRC, particulars of which as at the Latest Practicable Date are set out below:

(a) Fushan Medicinal Packaging

- (i) Date of establishment: July 31, 2003
- (ii) Registered office: Urban Industrial Zone, Xichuan County, Henan Province, China
- (iii) Corporate nature: Limited liability company
- (iv) Registered capital: RMB2,600,000 (fully paid-up)
- (v) Shareholder: 86.15% owned by Henan Fusen and 13.85% owned by 17 other individuals

(b) Henan Fusen

- (i) Date of establishment: October 10, 2003
- (ii) Registered office: Urban Industrial Zone, Xichuan County, Henan Province, China
- (iii) Corporate nature: Limited liability company
- (iv) Registered capital: RMB75,937,400 (fully paid-up)
- (v) Shareholder: 93.34% owned by Nanyang Hengsheng and 6.66% owned by Wealth Depot (HK)

(c) Nanyang Hengsheng

- (i) Date of establishment: December 12, 2012
- (ii) Registered office: Urban Industrial Zone, Xichuan County, Henan Province, China
- (iii) Corporate nature: Wholly foreign-owned enterprise
- (iv) Registered capital: US\$8,000,000 (expected to be fully paid-up by November 2018)
- (v) Shareholder: Wholly-owned by Cloud Dollar

7. Repurchase of our Shares by our Company

This section includes information required by the Stock Exchange to be included in the prospectus concerning the repurchase of our Shares by our Company.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Pursuant to the written resolutions of our Shareholders passed on June 14, 2018, a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors authorizing our Directors to exercise all powers of our Company to purchase on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose such number of Shares representing up to 10% of the aggregate of the number of Shares in issue immediately following completion of the Global Offering and the Capitalization Issue but excluding any Share to be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held, or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by our Company may be made out of profits, out of our Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorized by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account or, if authorized by the Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a “core connected person”, which includes a director, chief executive or substantial shareholder of our Company or any of our subsidiaries or a close associate (as defined in the Listing Rules) of any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company’s net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Exercise of the Repurchase Mandate

On the basis of 800,000,000 Shares in issue after completion of the Global Offering and the Capitalization Issue, exercise in full of the Repurchase Mandate, could accordingly result in up to 80,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) Funding of repurchase

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands. Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) General

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations from time to time in force in the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder’s proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the

level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Save as disclosed above, our Directors are not aware of any consequence that may arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate. Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person of our Company has notified our Company that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

(B) FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material in relation to the business of our Company as a whole:

- (a) an equity transfer agreement dated October 10, 2016 between the then 48 individual shareholders of Henan Fusen, including Mr. Cao Changcheng, Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen, Mr. Fu Jiancheng and 43 other individuals (as vendors) and Fusen Shiye (as purchaser) pursuant to which the said vendors agreed to sell and Fusen Shiye agreed to acquire 100% of the equity interest in Henan Fusen at an aggregate consideration of RMB70,880,000;
- (b) a capital increase agreement dated December 5, 2016 between Henan Fusen, Fusen Shiye and Wealth Depot (HK), pursuant to which Wealth Depot (HK) agreed to contribute RMB7,481,900 in cash to the capital of Henan Fusen;
- (c) an equity transfer agreement dated March 7, 2017 between Henan Fusen as purchaser and Mr. Cao Changcheng, Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen, Mr. Fu Jiancheng and 11 individuals as vendors pursuant to which the said vendors agreed to sell and Henan Fusen agreed to acquire an aggregate of approximately 21.92% of the equity interest in Fushan Medicinal Packaging at an aggregate consideration of RMB570,000;
- (d) an equity transfer agreement dated March 19, 2017 between Fusen Shiye as vendor and Nanyang Hengsheng as purchaser pursuant to which Fusen Shiye agreed to sell and Nanyang Hengsheng agreed to acquire 93.34% of the equity interest in Henan Fusen at a consideration of RMB92,032,000;
- (e) a sale and purchase agreement dated March 19, 2017 between Wealth Depot as vendor, Jinli as purchaser, Ms. Ivy Connie Sun and our Company pursuant to which Wealth Depot agreed to sell and Jinli agreed to acquire 100% shareholding of Wealth Depot (HK) in consideration of the allotment and issue of 6,566,672 Shares by our Company to Wealth Depot;

- (f) a deed of settlement dated March 19, 2017 between Jinli, Wealth Depot, Wealth Depot (HK) and our Company for the settlement of approximately HK\$8.5 million due from Wealth Depot (HK) as debtor to Wealth Depot as creditor;
- (g) a share subscription agreement dated August 10, 2017 between One Victory, First Joint Elegant and our Company pursuant to which One Victory and First Joint Elegant agreed to subscribe 44,441,428 Shares and 10,206,204 Shares at total consideration of RMB50,929,876.488 and RMB11,696,309.784, respectively;
- (h) a deed of settlement dated June 14, 2018 between One Victory, Mr. Cao Dudu and our Company for the settlement of approximately HK\$19.1 million due from our Group as debtor to Mr. Cao Dudu as creditor;
- (i) a share purchase agreement dated December 14, 2017 between One Victory, Wealth Depot, China Resources Pharmaceutical Fund, our Company, Henan Fusen and Mr. Cao Changcheng pursuant to which China Resources Pharmaceutical Fund agreed to purchase 12,041,294 Shares and 3,283,336 Shares, respectively, from One Victory and Wealth Depot at a total consideration of RMB70,717,300 and RMB19,282,699, respectively, payable in Hong Kong dollars at an agreed exchange rate;
- (j) the Deed of Non-competition;
- (k) the Deed of Indemnity; and
- (l) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

Trademark

- (a) As at the Latest Practicable Date, our Group owned or had registered the following four trademarks in Hong Kong:

Trademark	Class	Trade Mark Number	Registration Date	Expiry Date	Registered Owner
	5, 35, 42, 44	304031405	January 24, 2017	January 23, 2027	Jinli
	5, 35, 42, 44	304031414	January 24, 2017	January 23, 2027	Jinli
	5, 35, 42, 44	304031423	January 24, 2017	January 23, 2027	Jinli
	5, 35, 42, 44	304031432	January 24, 2017	January 23, 2027	Jinli

- (b) As at the Latest Practicable Date, our Group owned or had registered the following trademarks in the PRC which we believe are material to our business:

Trademark	Class	Registration Number	Registration Date	Expiry Date	Registered Owner
	5	1292730	July 14, 2009	July 13, 2019	Henan Fusen
	5	3784441	July 14, 2010	July 13, 2020	Henan Fusen
森克	5	3979011	November 7, 2016	November 6, 2026	Henan Fusen
鑫旨安	5	3979012	November 7, 2016	November 6, 2026	Henan Fusen
珍渴吟	5	3979038	November 7, 2016	November 6, 2026	Henan Fusen
	5	4358327	January 7, 2008	January 6, 2028	Henan Fusen
福森	5	9847811	January 7, 2013	January 6, 2023	Henan Fusen
	35	12087910	July 14, 2014	July 13, 2024	Henan Fusen
福森	35	12087911	August 21, 2014	August 20, 2024	Henan Fusen

Patent

As at the Latest Practicable Date, our Group owned or had registered the following patents with the State Intellectual Property Bureau in the PRC which we believe are material to our business:

Patent	Type	Patent Number	Application Date	Expiry Date	Registered Owner
A high-volume injection of Flunarizine Hydrochloride and its processing method (鹽酸氟桂利嗪大容量注射液及其加工工藝)	Invention Patent (發明專利)	ZL03126391.7	September 27, 2003	September 26, 2023	Henan Fusen
A preparation method of Yuanhu Pain Relief Oral Solution (元胡止痛口服液的製備工藝)	Invention Patent (發明專利)	ZL200610107202.1	September 26, 2006	September 25, 2026	Henan Fusen

Patent	Type	Patent Number	Application Date	Expiry Date	Registered Owner
An ampoule transposition device (一種安瓿瓶換位轉送裝置)	Utility Model Patent (實用新型專利)	ZL201620147353.9	February 29, 2016	February 28, 2026	Fushan Medicinal Packaging

Domain name

As at the Latest Practicable Date, our Group was the registrant of the following domain name:

Domain Name	Registration Date	Expiry Date
www.fusenyy.com	March 31, 2017	March 31, 2027

(C) FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of interests

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalization Issue but taking no account of any Shares which may be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are listed on the Stock Exchange, 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 any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange, will be as follows:

Long position in our Shares

Name of Director	Capacity/Nature	Number of Shares held/interested	Percentage of interest
Mr. Cao Changcheng ^(Notes 1, 2 and 3)	Interest of a controlled corporation	487,200,000	60.90%
Mr. Cao Dudu ^(Note 2)	Interest of a controlled corporation	126,840,000	15.86%
Mr. Hou Taisheng ^(Note 4)	Beneficiary of a trust	13,399,165	1.67%
Ms. Meng Qingfen ^(Note 4)	Beneficiary of a trust	11,809,433	1.48%
Mr. Chi Yongsheng ^(Note 4)	Beneficiary of a trust	12,944,956	1.62%

Notes:

1. Full Bliss is wholly-owned by Mr. Cao Changcheng. As Mr. Cao Changcheng beneficially owns 100% of the issued shares of Full Bliss, Mr. Cao Changcheng is deemed to be interested in 180,180,000 Shares held by Full Bliss pursuant to the SFO.
2. Mr. Cao Dudu is the beneficial owner of the entire issued share capital of One Victory and is therefore deemed to be interested in the 126,840,000 Shares held by One Victory pursuant to the SFO. Furthermore, pursuant to the Second Deed of Confirmation dated August 18, 2017 entered into between Mr. Cao Changcheng, Mr. Cao Dudu and One Victory, Mr. Cao Changcheng is entrusted to exercise all voting rights attaching to the Shares owned by One Victory and direct One Victory to vote accordingly.
3. Mr. Cao Changcheng is the protector of the Fusen Trust who has the power to remove the trustee and appoint new trustee for the Fusen Trust. Mr. Cao Changcheng is also the investment manager of the Fusen Trust, who is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford and direct the trustee of the Fusen Trust to vote accordingly. Mr. Cao Changcheng, through Full Bliss, Rayford and One Victory, is therefore interested in an aggregate of 487,200,000 Shares, representing 60.90% of our issued share capital upon completion of the Global Offering and the Capitalization Issue under the SFO (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).
4. Each of Mr. Hou Taisheng, Mr. Chi Yongsheng, and Ms. Meng Qingfen, who is our executive Director, is a beneficiary under the Fusen Trust, details of which are set out in the section headed “History, Reorganization and Corporate Structure — Reorganization — (c) Establishment of the Fusen Trust” of this prospectus.

So far as is known to our Directors and taking no account of any Shares which may be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Global Offering and the Capitalization Issue, have interests or short positions in our Shares or underlying Shares which would fall 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, who are, directly or indirectly, 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:

Our Company

Name	Capacity/Nature	Number of Shares held/ interested	Percentage of interest
Full Bliss	Beneficial owner	180,180,000	22.52%
Rayford	Beneficial owner	180,180,000	22.52%
Vistra Trust (Labuan) Limited ^(Note 1)	Interest of a trustee	180,180,000	22.52%
Ms. Quan Xiufeng ^(Note 2)	Interest of spouse	487,200,000	60.90%
One Victory	Beneficial owner	126,840,000	15.86%
Ms. Zhou Rui ^(Note 3)	Interest of spouse	126,840,000	15.86%
China Resources Pharmaceutical Fund	Beneficial owner	60,000,000	7.50%
First Joint Elegant	Beneficial owner	39,960,000	5.00%
Mr. Lam Yiu Por ^(Note 4)	Interest in controlled corporation	39,960,000	5.00%
Ms. Fung Wai Sze ^(Note 5)	Interest of spouse	39,960,000	5.00%

Notes:

1. Vistra Trust (Labuan) Limited is a trustee of the Fusen Trust, whereby Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen, Mr. Fu Jiancheng and 43 other individuals are the beneficiaries under the Fusen Trust. As Vistra Trust (Labuan) Limited holds 100% of the issued shares of Rayford in the capacity of a trustee, Vistra Trust (Labuan) Limited is deemed to be interested in 180,180,000 Shares held by Rayford pursuant to the SFO.
2. Ms. Quan Xiufeng is Mr. Cao Changcheng's spouse and is deemed to be interested in the 487,200,000 Shares in which Mr. Cao Changcheng is interested for the purpose of the SFO.
3. Ms. Zhou Rui is Mr. Cao Dudu's spouse and is deemed to be interested in the 126,840,000 Shares in which Mr. Cao Dudu is interested for the purpose of the SFO.
4. First Joint Elegant is wholly-owned by Mr. Lam Yiu Por. Mr. Lam Yiu Por is deemed to be interested in 39,960,000 Shares held by First Joint Elegant pursuant to the SFO.
5. Ms. Fung Wai Sze is Mr. Lam Yiu Por's spouse and is deemed to be interested in the 39,960,000 Shares in which Mr. Lam Yiu Por is interested for the purpose of the SFO.

2. Particulars of service agreements

No Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Directors' remuneration

The aggregate amount of remuneration paid to our Directors by our Group in respect of the three financial years ended December 31, 2017 was approximately RMB0.2 million, RMB1.5 million and RMB0.5 million, respectively.

- (a) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending December 31, 2018 will be approximately HK\$2.6 million.
- (b) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

Executive Directors

Mr. Cao Changcheng	RMB90,000 per year
Mr. Hou Taisheng	RMB84,000 per year
Mr. Chi Yongsheng	RMB66,000 per year
Ms. Meng Qingfen	RMB78,000 per year
Mr. Cao Dudu	HK\$600,000 per year

Non-executive Director

Mr. Wang Jianhang	Not applicable
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Independent non-executive Directors

Mr. Ho Ka Chun	HK\$180,000 per year
Mr. Sze Wing Chun	HK\$180,000 per year
Mr. Shang Lei	HK\$180,000 per year

- (c) Each of our Directors has entered into a service contract with our Company for a term commencing from the Listing Date and ending on the date on which (i) the Company's annual general meeting, which approves its financial results for the second full financial year commencing after the Listing Date, is concluded or (ii) the third anniversary of the Listing Date, whichever is earlier, which may be terminated by not less than three months' notice served by either party on the other, and is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Articles.

4. Agency fees or commission received

Save as disclosed in the section headed "Underwriting" in this prospectus and this appendix, none of our Directors or the experts named in the paragraph headed "(E) Other information — 7. Consents of experts" in this appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under Note 29 to the Accountants' Report set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group;
- (b) none of our Directors or the experts named in the paragraph headed "(E) Other information — 7. Consents of experts" in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors or the experts named in the paragraph headed "(E) Other information — 7. Consents of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

- (d) taking no account of our Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering and the Capitalization Issue, have any interest in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, 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;
- (e) none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of the associated corporations (within the meaning of the SFO) which, once our Shares are listed on the Stock Exchange, 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 any interests and short positions which he will be 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 entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, to be notified to our Company and the Stock Exchange; and
- (f) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers, the five largest subcontractors or the five largest suppliers of our Group.

(D) SHARE OPTION SCHEME

(a) Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	June 14, 2018, the date on which the Share Option Scheme is conditionally adopted by the Shareholders by way of written resolution
“Board”	the board of Directors or a duly authorized committee of the board of Directors
“Business Day”	any day on which the Stock Exchange is open for the business of dealings in securities
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest

(b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on June 14, 2018:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, our independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(iii) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by our Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. For the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five business days, the issue price of the Shares on the Stock Exchange shall be used as the closing price for any business day fall within the period before listing.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.0.

(v) *Maximum number of Shares*

- (aa) Subject to sub-paragraphs (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of our Shares (assuming the Over-allotment Option is not exercised and no options are granted under the Share Option Scheme) in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 80,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 80,000,000 Shares from time to time) to the participants under the Share Option Scheme.
- (bb) The 10% limit as mentioned above may be refreshed at any time by approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, canceled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to our Shareholders containing the information as required under the Listing Rules in this regard.
- (cc) Our Company may seek separate approval by our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose and all other information required under the Listing Rules.
- (dd) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

(vi) *Maximum entitlement of each participant*

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of our Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit

must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, our Company must send a circular to our Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(vii) Grant of options to certain connected persons

- (aa) Any grant of an option to a Director, chief executive or substantial shareholder of our Company (or any of their respective associates) must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).
- (bb) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, canceled and outstanding) in any 12-month period up to and including the date of grant:
 - (i) representing in aggregate over 0.1% of our Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options is required to be approved by our Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to our Shareholders containing all information as required under the Listing Rules in this regard. All connected persons of our Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by our Shareholders in the aforesaid manner.

(viii) Restrictions on the times of grant of options

- (aa) Our Company may not grant any options after inside information has come to its knowledge until such inside information has been announced. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:
 - (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

- (ii) the deadline for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or other interim period (whether or not required under the Listing Rules).
- (bb) Further to the restrictions in paragraph (aa) above, no option may be granted to a Director on any day on which financial results of our Company are published:
 - (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
 - (ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(ix) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(x) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(xi) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with our fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(xii) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(xiii) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to

the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of 12 months following his death, then his legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(xiv) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offense involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

(xv) Rights on cessation of employment for other reasons

In the event that the grantee is an employee, a consultant or an adviser (as the case may be) of member of our Group at the date of grant and he subsequently ceases to be an employee, a consultant or an adviser (as the case may be) of our Group for any reason other than his death or the termination of his employment of an employee or engagement of a consultant or an adviser (as the case may be) on one or more of the grounds specified in (xiv) above, the option (to the extent not already lapsed or exercised) shall lapse on the expiry of three months after the date of cessation of such employment of an employee or engagement of a consultant or an adviser (as the case may be) (which date will be in the case of an employee the last actual working day, on which the grantee was physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not, and in the case of a consultant or an adviser (as the case may be), the last actual day of providing consultancy or advisory services to the relevant member of our Group).

(xvi) Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time, provided that any alteration shall give a grantee, as near as possible, the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(xvii) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xviii) Rights on winding-up

In the event a notice is given by our Company to our members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(xix) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to our Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already lapsed or exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (“**Suspension Date**”), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavor to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms

presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or wilful default on the part of our Company or any of our officers.

(xx) Lapse of options

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);
- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xv), (xvii), (xviii) or (xix) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;
- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offense involving his integrity or honesty;
- (ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or
- (gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

(xxi) Cancellation of options granted but not yet exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in a manner that complies with all applicable legal requirements for such cancellation.

(xxii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting.

(xxiii) Alteration to the Share Option Scheme

- (aa) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.
- (bb) Any amendment to any terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of the Listing Rules and the notes thereto and the supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including the supplemental guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to share option schemes) or any guidelines issued by the Stock Exchange from time to time.

(xxiv) Termination to the Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxv) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon the Listing Committee granting the listing of, and permission to deal in, our Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, and commencement of dealings in the Shares on the Stock Exchange.

(c) Present status of the Share Option Scheme

Application has been made to the Listing Committee for the listing of and permission to deal in 80,000,000 Shares which fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

(E) OTHER INFORMATION**1. Tax and other indemnities**

Each of Full Bliss and Mr. Cao Changcheng (collectively, the “**Indemnifiers**”) have, under a deed of indemnity referred to in the paragraph headed “(B) Further information about our business — 1. Summary of material contracts” in this appendix, given joint and several indemnities to our Company for ourselves and as trustee for our subsidiaries in connection with, among other things,

- (a) any liability for Hong Kong estate duty which might be payable by any member of our Group under or by virtue of the provisions of Section 35 and Section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Global Offering becomes unconditional;
- (b) any taxation which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which Global Offering becomes unconditional; or (ii) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the Global Offering becomes unconditional;
- (c) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with:
 - (i) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Global Offering becomes unconditional;
 - (ii) the implementation of the Reorganization and/or disposal or acquisition of the equity interest in any member of our Group since the date of incorporation of each member of our Group and up to the date on which the Global Offering becomes unconditional; and
 - (iii) any non-compliance with the applicable laws, rules or regulations by our Company and/or any member of our Group on or before the date on which the Global Offering becomes unconditional.

The Indemnifiers will, however, not be liable under the deed of indemnity for taxation to the extent that, among others:

- (a) specific provision, reserve or allowance has been made for such taxation liability in the audited consolidated financial statements of any member of our Group for the Track Record Period;

- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Global Offering becomes unconditional; or
- (c) the liability arises in the ordinary course of business of our Group after December 31, 2017 up to and including the date on which the Global Offering becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

2. Litigation

No member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened against any member of our Group as at the Latest Practicable Date.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned herein including any Shares to be issued upon exercise of any options to be granted under the Share Option Scheme.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

Our Company has entered into an agreement with the Sole Sponsor, pursuant to which our Company agreed to pay a sponsor's fee of HK\$5.3 million to the Sole Sponsor in respect of the Global Offering, and will reimburse the Sole Sponsor for their expenses properly incurred in connection with the Global Offering.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$2,840 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
China Securities (International) Corporate Finance Company Limited	A licensed corporation under the SFO to engage in Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO
KPMG	Certified Public Accountants
Commerce & Finance Law Offices	PRC legal advisers
Appleby	Legal advisers as to Cayman Islands law
Frost & Sullivan	Industry Consultant
Protiviti	Internal Control Consultant

7. Consents of experts

Each of China Securities (International) Corporate Finance Company Limited, KPMG, Commerce & Finance Law Offices, Appleby, Frost & Sullivan and Protiviti has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letter and/or opinion and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which it is respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Share Registrar

The register of members of our Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Hong Kong Share Registrar and may not be lodged in the Cayman Islands.

10. Taxation of holders of Shares*(a) Hong Kong*

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of our Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasized that none of our Company, our Directors or other parties involved in the Global Offering accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

11. No material adverse change

Our Directors confirm that there has not been any material adverse change in the financial or trading position or prospects of our Group since December 31, 2017 (being the date to which the latest audited consolidated financial statements of our Group were made up).

12. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of the subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration than cash;
 - (ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of the subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of the subsidiaries;
 - (iii) no commission has been paid or is payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares or debenture of any of our Company or our subsidiaries; and
 - (iv) no share or loan capital of our Company or any of the subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

- (b) Neither our Company nor any of the subsidiaries has issued or agreed to issue any founders shares, management shares, deferred shares or any debentures.
- (c) Save as disclosed in the section headed “Underwriting” in this prospectus, none of the parties listed in the paragraph headed “(E) Other information — 7. Consents of experts” in this appendix is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries.
- (d) The branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited, our Hong Kong Share Registrar. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the Cayman Islands. All necessary arrangements have been made to ensure our Shares to be admitted into CCASS for clearing and settlement.
- (e) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.
- (f) No company within our Group is presently listed on any stock exchange or traded on any trading system.
- (g) We have no outstanding convertible debt securities.
- (h) Our Directors have been advised that, under Cayman Islands law, the use of a Chinese name (which has been entered on the register of companies in the Cayman Islands as evidenced by our Company’s certificate of incorporation) by our Company in conjunction with the English name does not contravene Cayman Islands law.
- (i) There is no arrangement under which future dividends are waived or agreed to be waived.
- (j) The English text of this prospectus shall prevail over the Chinese text.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a 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 section headed “Statutory and General Information — (E) Other information — 7. Consents of experts” in Appendix IV to this prospectus; and
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — (B) Further information about our business — 1. Summary of material contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of D. S. Cheung & Co. at 29/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the amended and restated Memorandum and Articles;
- (b) the Cayman Companies Law;
- (c) the Accountants’ Report of our Group dated the date of this prospectus prepared by KPMG, the texts of which are set out in Appendix I to this prospectus;
- (d) the report from KPMG in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the audited consolidated financial statements of our Group for the three years ended December 31, 2017;
- (f) the PRC legal opinions issued by Commerce & Finance Law Offices, our PRC Legal Adviser in respect of our Group’s business operations and property interests in the PRC;
- (g) the letter of advice from Appleby, our Cayman Islands legal advisers, summarizing the constitution of our Company and certain aspects of Cayman Companies Law referred to in the section headed “Summary of the Constitution of the Company and Cayman Islands Company Law” in Appendix III to this prospectus;
- (h) material contracts referred to in the section headed “Statutory and General Information — (B) Further information about our business — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (i) the Frost & Sullivan Report;

- (j) service contracts and letters of appointment with each of our Directors referred to in the section headed “Statutory and General Information — (C) Further information about Substantial Shareholders, Directors and Experts — 3. Directors’ remuneration” in Appendix IV to this prospectus;
- (k) the written consents referred to in the section headed “Statutory and General Information — (E) Other information — 7. Consents of experts” in Appendix IV to this prospectus; and
- (l) the rules of the Share Option Scheme.



福森藥業有限公司

Fusen Pharmaceutical Company Limited