You should read the following discussion and analysis in conjunction with our consolidated financial information, including the notes thereto, as at and for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 included in the Accountant's Report set out in "Appendix I – Accountant's Report", which has been prepared in accordance with IFRS.

The following discussion and analysis and other parts of this prospectus contain certain forward-looking statements that reflect our current views with respect to future events and our financial performance that involve risks, uncertainties and changes in circumstances. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. For further details of these risks and uncertainties, please see "Forward-looking Statements" and "Risk Factors".

OVERVIEW

We are one of the leading pharmaceutical retailers and distributors in Northeast China. In 2012, we were also the largest pharmaceutical retail chain in terms of the number of self-operated pharmacies and the largest privately-owned pharmaceutical distributor in terms of revenue in Northeast China[(1)].

During the Track Record Period, we maintained rapid growth in revenue and gross profit. From 2010 to 2012, our retail and distribution revenues grew at a CAGR of 53.6% and 73.1%, respectively. According to NFS, such rates were the highest among all pharmaceutical retailers and distributors operating in Northeast China during the same periods.

Through both strategic acquisitions and organic growth, we have been able to achieve the following: (i) our total revenue increased from RMB858.6 million in 2010 to RMB2,326.3 million in 2012, (ii) the number of our self-operated pharmacies grew from 185 at the beginning of the Track Record Period to 794[(2)] as at the Latest Practicable Date, and (iii) we have built a nationwide distribution network covering approximately 3,702 customers as at the Latest Practicable Date. Our revenue for the six months ended 30 June 2013 was RMB1,457.0 million, representing an increase of 49.5% from RMB974.5 million for the same period in 2012. We believe that our ability to identify and acquire potential high-growth targets and integrate our acquired businesses has given us a competitive edge over our competitors.

(1) According to NFS, we had the largest pharmaceutical retail chain in Northeast China in terms of the number of self-operated pharmaceutical stores and we were the largest privately-owned pharmaceutical retail chain in terms of revenue in 2012 in Northeast China. We were the largest privately-owned distributor in terms of revenue in Northeast China in 2012.

(2) This includes 279 self-operated retail pharmacies which we converted from contracted pharmacies during the Track Record Period but excludes (i) four joint venture retail pharmacies which we do not control and (ii) 15 supermarkets in Shenyang which sell healthcare products in addition to consumer goods.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

We believe that the most significant factors that affect our results of operations are:

- The growth of the PRC and Northeast China pharmaceutical markets;
- Our business acquisitions and the expansion of our retail network;
- Our ability to optimise our product portfolio and increase sales of High-gross-margin Products;
- Our ability to control procurement costs;
- Seasonality; and
- PRC government policies and pharmaceutical regulations.

The Growth of the PRC and Northeast China Pharmaceutical Markets

Our results of operations are significantly affected by the demand for pharmaceutical products in the PRC, which is one of the world's largest and fastest growing pharmaceutical markets. According to NFS, in 2010, 2011 and 2012, total sales in the PRC pharmaceutical market were RMB708.4 billion, RMB942.6 billion and RMB1,117.4 billion, respectively, and are projected to reach RMB2,335.8 billion in 2016. For the period from 2010 to 2012, in terms of pharmaceutical retail and distribution, the PRC pharmaceutical market, the Northeast China pharmaceutical market and our revenue grew at a CAGR of 25.6%, 28.5% and 64.6%, respectively.

The rapid growth of the pharmaceutical market in the PRC has been driven by a number of favourable socioeconomic factors, such as (i) the rapid growth of the PRC's GDP, (ii) the disposable income of its increasingly affluent population, (iii) the increase in healthcare spending, (iv) the continuing ageing of the population, (v) the increased rate of urbanisation and (vi) healthcare reform plans and other support provided by the PRC government.

From 2010 to 2012, the pharmaceutical market in Northeast China grew at a similar rate as the national average in terms of sales. Northeast China is a fragmented pharmaceutical market without the significant presence of any major national pharmaceutical retail and distribution giants. With a leading position in the Northeast China pharmaceutical retail and distribution markets, we are well positioned to capture the continuous rapid growth of the PRC and Northeast China pharmaceutical markets.

Our Business Acquisitions and the Expansion of Our Retail Network

Historically, business acquisitions had been an important driver for the growth of our revenue and profit. We began our expansion through business acquisitions in 2011 and acquired 574 pharmacies and three pharmaceutical distribution companies during the Track Record Period. Our major acquisitions included Hebei Yanxiao and Sui Hua in 2011, and Harbin Hongqi and Wei Kang in 2012. Together with other acquired companies, these companies contributed 45.2% and 34.0% of our total revenue and gross profit in 2012, respectively. We will continue to seek suitable targets for acquisitions as a key aspect of our overall growth strategy.

The success of our strategy to expand through acquisitions depends largely on:

- the ability to identify suitable acquisition targets and complete acquisitions at commercially acceptable terms or prices; and

- the ability to integrate the acquired businesses and capitalise on the expected synergies arising from the integration.

In recent years, we have also expanded our retail network rapidly. In particular, the number of our self-operated pharmacies increased from 185 as at 31 December 2010 to 431 as at 31 December 2011, and further increased to 600 as at 31 December 2012 and 794 as at 30 June 2013.

The following table sets forth the number of pharmacies, revenue, and average revenue per square metre with respect to pharmacies that have opened or been acquired for at least one year at the beginning of the periods indicated.

	Year ended 31 December						Six months ended 30 June		
	2011			2012			2013		
	Number of pharmacies	Revenue	Average revenue per m^2	Number of pharmacies	Revenue	Average revenue per m^2	Number of pharmacies	Revenue	Average revenue per m^2
		(RMB'000)	(RMB'000)		(RMB'000)	(RMB'000)		(RMB'000)	(RMB'000)
Opened/Acquired prior to 31 December 2009 . . .	165	344,836.3	20.5	165	347,397.7	20.7	165	194,235.1	11.5
Opened/Acquired prior to 31 December 2010 . . .	–	–	–	185	377,369.0	19.7	185	211,187.0	11.0
Opened/Acquired prior to 31 December 2011 . . .	–	–	–	–	–	–	431	369,372.9	9.8

For our pharmacies that have opened or been acquired for at least one fiscal year, the average revenue per square metre was RMB20,504, RMB19,665 and RMB9,774 for the years ended 31 December 2011 and 2012 and the six months ended 30 June 2013, respectively. The slight decrease from 2011 to 2012 reflected (i) the new pharmacies that we acquired, which prior to acquisition had substantially lower average revenue per square metre than our pharmacies, and (ii) the new pharmacies that we opened, which had been operating for less than 24 months and had not yet ramped up their sales. The 24 month ramp up period for newly opened pharmacies is due to the need to build up regional brand awareness and win market share from competitors over time, as well as factors such as pharmacy location, product mix and quality of the sales force. Newly acquired pharmacies generally experience a ramp up period of three to six months, but as a result of their low average revenue per square metre prior to acquisition, are expected to take a longer period of time to reach the sales levels of our established pharmacies, many of which have been operating for several years.

We have been generally successful in replicating our proven business model and operational procedure in our acquired businesses. For pharmacies that we opened prior to 31 December 2009, our average revenue per square metre increased by 0.7% from RMB20,504 in 2011 to RMB20,656 in 2012, and amounted to RMB11,549 in the six months ended 30 June 2013. For pharmacies that we opened prior to 31 December 2010, our average revenue per square metre amounted to RMB19,665 in 2012 and RMB11,005 in the six months ended 30 June 2013.

Similarly, we have improved the gross margins of acquired retail pharmacies. For pharmacies that we acquired in 2011, we recorded gross margins of 32.8%, 35.4% and 40.7% in 2011, 2012 and the six months ended June 30, 2013, respectively. For pharmacies that we acquired in 2012, we recorded gross margins of 31.3% and 37.0% in 2012 and the six months ended June 30, 2013, respectively.

We implement various policies to integrate newly acquired businesses, including with respect to employee incentives, monitoring and our management system. We retain staff and managers who demonstrate strong aptitude and enthusiasm. To monitor integration progress, we re-evaluate and deploy our staff on-site at acquired businesses after the acquisition. Furthermore, we incorporate acquired businesses into our unified management systems with respect to financial, IT, inventory and accounting systems. Please see "*Business – Competitive Strengths – We have strong execution capability for acquisitions and integration*." for further details.

Our Ability to Optimise Our Product Portfolio and Increase Sales of High-gross-margin Products

We do not design or manufacture our own pharmaceutical products. We rely on pharmaceutical manufacturers and distributors to supply our pharmaceutical products. The revenue and gross margin of each product we sell or distribute vary significantly. As a result, our ability to optimise our product portfolio is critical to our revenue and gross margin. Our strategy is to refine our product offerings and to focus on our High-gross-margin Products, including our products with exclusive rights and Licensed Products. These products are selected based on gross margin and growth potential. In addition, we plan to increase the proportion of Licensed Products in our product portfolio. Licensed branding gives us more freedom and flexibility in pricing and more control over product attributes and quality. As at 30 June 2013, we had more than 371 different Licensed Products. We will also reduce or retire some of the products with low or decreasing market demand or gross margin. In 2010, 2011 and 2012 and the six months ended 30 June 2013, the gross margin of our High-gross-margin Products was 43.1%, 44.6%, 44.0% and 38.4%, respectively. In addition, our High-gross-margin Products accounted for 34.3%, 34.5%, 28.0% and 25.2% of our total revenue and 53.0%, 59.9%, 52.4% and 36.8% of our total gross profit in 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively.

We will continue to evaluate and adjust our product portfolio from time to time to focus on products with higher gross margins and greater market demand to increase our overall profitability. To ensure that our product line meets the evolving market demand, we plan to continue enhancing our pharmaceutical sales and marketing capabilities. We also plan to continue developing a product mix that supports sustainable growth and helps us meet our current and future profitability targets.

Our Ability to Control Procurement Costs

The following table sets out a breakdown of our major operating expenses for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Amount	% of total operating expense	Amount	% of total operating expense	Amount	% of total operating expense	Amount	% of total operating expense	Amount	% of total operating expense
	(RMB'000, except percentages)									
							(unaudited)			
Cost of sales										
Cost of products	613,495	87.9	1,088,818	88.6	1,768,843	87.9	741,628	88.1	1,066,063	85.9
Tax expenses. . .	5,377	0.8	6,940	0.5	11,680	0.6	4,755	0.6	7,211	0.6
	618,872	88.7	1,095,758	89.1	1,780,523	88.5	746,383	88.7	1,073,274	86.5
Selling and Marketing Expenses	67,323	9.6	103,010	8.4	188,887	9.4	77,635	9.2	137,763	11.1
Administrative Expenses	11,625	1.7	30,743	2.5	41,974	2.1	17,862	2.1	30,248	2.4

Cost of sales, which consists of the cost of purchasing merchandise, was the largest component of our expenses across our retail and distribution businesses during the Track Record Period. To control our procurement costs, we have established a centralised procurement platform. We also perform periodical internal audits to monitor purchases made by our subsidiaries. The centralised procurement platform can (i) increase our bargaining power against our suppliers, (ii) help us optimise our product portfolio and (iii) reduce our procurement-related management and administrative expenses. Please see *"Business – Our Centralised Procurement Platform and Inventory Management"* for further details regarding our centralised procurement platform.

To keep our procurement costs for the High-gross-margin Products at a very competitive level, we have adopted the Direct-supply Model, under which we directly source the products from manufacturers and either directly sell those products through our retail network, or distribute them to hospitals, clinics and pharmaceutical retailers. We are able to maintain a streamlined supply and distribution chain, which enables us to eliminate a large portion of manufacturers' promotional costs and distribution costs in traditional pharmaceutical value chains. This also gives us more flexibility in pricing, which allows us to maintain a favourable gross margin. As a result, our ability to control our procurement costs significantly affects the profitability of our pharmaceutical retail and distribution businesses.

Seasonality

We have historically experienced relatively higher sales in the second half of each year as compared to the first half, particularly during the fourth quarter of the year. This seasonality is the result of a combination of many factors. Our sales have increased sequentially within each year as a result of our growth during the Track Record Period. In addition, we typically experience lower sales in the first quarter due to reduced business activity around the Chinese New Year holiday as our customers, particularly the local distributors, generally place some of their orders for first quarter consumption in the fourth quarter of the previous year. As a result, revenue from our retail and distribution businesses is typically higher in the fourth quarter.

Our sales are especially affected by the seasonally higher sales of certain of our pharmaceutical products, such as flu medicines, during the second half of each year, particularly from the end of the third quarter to the end of the fourth quarter. As a result, our inventory levels and trade and other payables are typically at higher levels before our peak sales period.

PRC Government Policies and Pharmaceutical Regulations

We operate in a highly regulated industry. Policies and regulations promulgated by the PRC government may affect the pricing, marketing and consumption of our products.

For example, in 2009 the PRC government launched a healthcare reform plan, investing a total of RMB850.0 billion from 2009 to 2012 to implement a series of programmes. These programmes included, among other things, (i) the expansion of the social medical insurance coverage, (ii) the promotion of the use of essential drugs, and (iii) the establishment of more community healthcare facilities, which contributed to the increases in demand for pharmaceutical products. However, with the introduction of a more centralised statutory tender system and more stringent price controls over essential drugs, the PRC government also brought downward pricing pressure on pharmaceutical retailers and distributors.

Customers who purchase products that are included in the National and Provincial Medical Insurance Drugs Catalogues are entitled to reimbursement of all or a portion of their purchase from the social medical fund, making such pharmaceutical products generally more attractive than non-reimbursable products. However, certain of such products are also subject to government price controls under the National or Provincial Medical Insurance Drugs Catalogues in the form of fixed retail prices, retail price ceilings and periodic downward price adjustments. For the six months ended 30 June 2013, 6.9% of our revenue was derived from products subject to price controls under the National or Provincial Medical Insurance Drugs Catalogues. During the Track Record Period, the price controls have not significantly affected our gross margin because our product prices have generally been lower than the prices set by the PRC government.

The following table illustrates the sensitivity of our revenue, gross profit and operating cash flow to price movements of our products that are included in the National or Provincial Medical Insurance Drugs Catalogues.

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	(RMB'000)			
Impact of 5% decrease in product price on				
Revenue.	(2,332.5)	(2,649.2)	(5,305.4)	(4,990.8)
Gross profit.	(889.0)	(1,098.7)	(2,259.4)	(2,757.5)
Profit for the year	(454.3)	(548.7)	(941.3)	(1,178.9)
Operating cash flow	(344.5)	(293.0)	(588.3)	(1,138.2)
Impact of 10% decrease in product price on				
Revenue	(4,665.1)	(5,298.4)	(10,610.9)	(9,981.6)
Gross profit	(1,778.0)	(2,197.4)	(4,518.9)	(5,514.9)
Profit for the year	(908.6)	(1,097.3)	(1,882.5)	(2,357.7)
Operating cash flow	(689.0)	(585.9)	(1,176.6)	(2,276.3)
Impact of 5% increase in product price on				
Revenue	2,332.5	2,649.2	5,305.4	4,990.8
Gross profit	889.0	1,098.7	2,259.4	2,757.5
Profit for the year	454.3	548.7	941.3	1,178.9
Operating cash flow	344.5	293.0	588.3	1,138.2
Impact of 10% increase in product price on				
Revenue	4,665.1	5,298.4	10,610.9	9,981.6
Gross profit	1,778.0	2,197.4	4,518.9	5,514.9
Profit for the year	908.6	1,097.3	1,882.5	2,357.7
Operating cash flow	689.0	585.9	1,176.6	2,276.3

We expect the PRC government to further lower the retail price ceilings of pharmaceutical products from time to time to make healthcare more affordable to the general public. These adjustments may impact our revenue and profitability in the future. We seek to mitigate the impact by optimising our product portfolio and improving our operation efficiency.

BASIS OF PRESENTATION

We were incorporated in the Cayman Islands on 12 March 2012 and, as part of the Reorganisation, became the holding company of our Group with our business conducted through our subsidiaries. Our ultimate Controlling Shareholder is Mr. Jin.

Our financial information has been prepared as a business under the control of Mr. Jin and now comprising our Group as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation or establishment of the combining companies, or since the date when the combining companies first came under the control of Mr. Jin. For companies acquired from or disposed to a third party in 2010, 2011 or 2012, they are included in or excluded from our consolidated financial statements from the date of the acquisition or disposal.

Historically, we operated our business through arrangements with Jintian Management and its shareholders under the Structured Contracts. Following our acquisitions of Jintian Management and its subsidiaries, we terminated the Structured Contracts on 27 June 2013 but continue to maintain the Contractual Arrangements with Jintian Century with respect to 4.99% equity interest in Jintian Aixin Co. Under the terms of the Structured Contracts, we believe that, notwithstanding the lack of equity ownership, we were entitled to control over the business of Jintian Management and its subsidiaries in substance during the Track Record Period. Accordingly, the financial position and the operating results of Jintian Management and its subsidiaries are included in our consolidated financial statements throughout the Track Record Period or since the respective dates of incorporation, establishment or acquisition. Please see *"Appendix V – Statutory and General Information – The Structured Contracts"* for further details.

The financial information in the Accountant's Report included in Appendix I to this prospectus has been prepared under the historical cost convention, as modified by the revaluation of the financial assets at fair value through profit or loss.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our results of operations and financial condition are based upon our consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of the financial statements requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets, liabilities, expenses and related disclosure of contingent assets and liabilities. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following accounting policies represent critical accounting policies as they involve a high degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this prospectus.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. We recognise revenue when (i) the amount of revenue can be reliably measured, (ii) it is probable that future economic benefits will flow to the entity, and (iii) specific criteria have been met for each of our activities. We base our estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Regarding our pharmaceutical retail business, we operate a chain of retail pharmacies for selling drugs and other pharmaceutical products. Sales of goods are recognised when a group entity delivers products to customers, who have accepted the products and collectability of the related receivables is reasonably assured. Retail sales are usually in cash or by bank card.

Regarding our pharmaceutical distribution business, we sell a range of drugs and other pharmaceutical products in the distribution market. Sales of goods are recognised when the significant risks and rewards of ownership of the goods are transferred to distributors.

Under our current policies, we generally have not allowed returns or refunds for our retail pharmaceutical products except for quality issues. For our distribution business, we also generally do not allow product returns or exchanges, except for quality issues and in specific circumstances.

Intangible Assets

Our intangible assets consist of goodwill, trademarks and brand loyalty, contractual supplier relationships and computer software.

Goodwill was realised upon our acquisitions of subsidiaries, businesses and joint ventures. We apply the acquisition method to account for goodwill, representing it as the excess of consideration paid by us over the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired entity and the fair value of the interest held by non-controlling third party shareholders. We annually review any impairment of goodwill, or upon the occurrence of events or changes in circumstances that indicate a potential impairment. We calculate impairment based on the excess of the carrying value of goodwill over the recoverable amount. Save as disclosed under note 31 to the Accountants' Report set out in Appendix I, valuation of the recoverable amount is determined based on value-in-use calculations in accordance with IFRS 39, wherein the discount period represents the best estimate of the remaining useful life of the assets and the discount rate refers to a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the future cash flow estimates have not been adjusted. The Directors consider such valuation methodology to be commonly adopted in valuing similar types of intangibles. Impairment of goodwill, if any, is recognised immediately as an expense and is not subsequently reversed.

Trademarks and brand loyalty are shown at historical cost. Trademarks and brand loyalty acquired by us in a business combination are recognised at fair value at the acquisition date. Trademarks and brand loyalty have a finite useful life and are carried at cost less accumulated amortisation. We amortise our trademarks and brand loyalty using the straight line method. Based on our experiences in the industry, we have determined useful life of trademarks and brand loyalty to be eight to twenty years. This estimate could change significantly as a result of changes in the pharmaceutical market, market trend and competition. We increase the amortisation charge where useful life is less than previously estimated, or write-off or write-down the trademark or brand loyalty to the recoverable amount when there is objective evidence that the carrying amount is not recoverable.

Contractual supplier relationships acquired by us in a business combination are recognised at fair value at the acquisition date. Such relationships have a finite useful life and are carried at cost less accumulated amortisation. We calculate amortisation using the straight-line method for 5 years following the expected life of a supplier relationship.

Computer software are capitalised on the basis of the costs incurred to acquire and develop the specific software. These costs are amortised over their estimated useful lives of five to seven years.

We did not acquire any subsidiaries in 2010. The table below sets out the cost, accumulated amortisation and net book amount of intangible assets as at 31 December 2011 and 2012 and 30 June 2013, respectively.

	As at 31 December 2011			As at 31 December 2012			As at 30 June 2013		
	Cost	Accumulated amortisation	Net book amount	Cost	Accumulated amortisation	Net book amount	Cost	Accumulated amortisation	Net book amount
					(RMB'000)				
Goodwill	71,516	–	71,516	250,321	–	250,321	347,436	–	347,436
Trademarks and brand loyalty	11,528	(352)	11,176	99,016	(3,412)	95,604	99,016	(6,364)	92,652
Contractual supplier relationships	9,775	(1,213)	8,562	9,775	(3,168)	6,607	9,775	(4,146)	5,629
Computer Software	–	–	–	2,133	(59)	2,074	2,133	(132)	2,001
Total	**92,819**	**(1,565)**	**91,254**	**361,245**	**(6,639)**	**354,606**	**458,360**	**(10,642)**	**447,718**

Depreciation of Property, Plant and Equipment

Property, plant and equipment, comprising mainly motor vehicles, furniture, office equipment and lease improvements are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. We calculate depreciation using the straight-line method to allocate their cost over their estimated useful lives. We determine estimated useful lives and related depreciation charges based on the expected lifespan of the assets, our historical experience with similar assets, our business model and our asset management policy. The estimated useful lives of property, plant and equipment are as follows.

Building	20 years
Motor vehicles	4-8 years
Furniture and office equipment	3-5 years
Lease improvement	shorter of lease period and estimated useful life

We adjust the depreciation expense for future periods if there are significant changes from previous estimates, or write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. These estimates are based on the current market condition and our historical experience of selling products of a similar nature. The estimates could change significantly as a result of changes in customer preferences and competitor actions, such as those that arise in response to severe industry cycles. We reassess these estimates at each balance sheet date.

Impairment of Receivables

Primarily for our distribution business, we establish a provision for impairment of trade and other receivables when there is objective evidence of events or changes in circumstances indicating that we will not be able to collect all amounts due according to the original terms of the receivables. Identifying bad debts and determining the amount of the provision for impairment is based on the credit history of our customers and current market conditions, and requires judgment and estimation. Evidence of impairment may include indications that the debtor or group of debtors: (i) is experiencing significant financial difficulty, (ii) is in default or delinquent on interest or principal payments, (iii) may enter bankruptcy or other financial reorganisation, and (iv) has observable data indicating a measurable decrease in estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If the financial condition of our trade debtors were to deteriorate, actual write-offs could be higher than estimated.

Income Taxes

We are subject to tax laws and regulations in the PRC and other regions, that are uncertain in many aspects. Because we have many transactions and calculations in the ordinary course of business for which the ultimate tax determination is uncertain, significant judgment is required in determining the provision for income taxes. We recognise liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions in the period in which such determination is made.

COMPONENTS OF OUR INCOME STATEMENTS

Revenue

We derive our revenue primarily from our retail and distribution of pharmaceutical products businesses. Our revenue is presented net of intersegment sales and VAT. In 2010, 2011 and 2012 and the six months ended 30 June 2013, our revenue was RMB858.6 million, RMB1,473.9 million, RMB2,326.3 million and RMB1,457.0 million, respectively.

The following table sets out, for the periods indicated, our revenue by business segment and as a percentage of our total revenue.

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	(RMB'000, except percentages)						(unaudited)			
Retail	386,420	45.0	526,075	35.7	912,203	39.2	368,519	37.8	700,795	48.1
Distribution	472,193	55.0	947,827	64.3	1,414,089	60.8	606,014	62.2	756,195	51.9
Total revenue	**858,613**		**1,473,902**		**2,326,292**		**974,533**		**1,456,990**	

During the Track Record Period, our revenue growth was attributable to (i) revenue generated by newly acquired pharmacies and distribution companies and (ii) revenue growth from existing businesses. The following table sets forth our revenue growth attributable to retail and distribution companies acquired during the periods indicated.

	Revenue increase		Attributable to pharmacies and distribution companies acquired during the period
	Amount (RMB'000)	(%)	(%)
2011 (vs. 2010)	615,289	71.7	57.2
2012 (vs. 2011)	852,390	57.8	21.4
First half of 2013 vs. (first half of 2012)	482,457	49.5	–

Pharmaceutical Retail

Prior to 30 June 2013, our pharmaceutical retail business generated revenue primarily from (i) sales of pharmaceutical, healthcare and medical device products to individual end-users and contracted pharmacies and (ii) a fixed one-time management fee of RMB5,000 to RMB10,000 which was imposed on each contracted pharmacy until the end of 2010. In 2010, we began acquiring or ending our relationship with all of our contracted pharmacies and by 30 June 2013, we had completed the process.

In 2010, 2011 and 2012 and the six months ended 30 June 2013, revenue of our pharmaceutical retail business was RMB386.4 million, RMB526.1 million, RMB912.2 million and RMB700.8 million, respectively. The revenue growth during these periods was primarily due to the increase in the number of pharmacies in 2011 and 2012 from both the organic revenue growth of our pharmacies, and acquisitions and new pharmacy openings . The number of our self-operated pharmacies was 185, 431, 600 and 794 as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively.

The following table sets forth our revenue growth attributable to the retail companies acquired during the periods indicated.

	Revenue increase		Attributable to retail companies acquired during the period
	Amount (RMB'000)	(%)	(%)
2011 (vs. 2010)	139,655.2	36.1	57.2
2012 (vs. 2011)	386,127.7	73.4	47.3
First half of 2013 vs. (first half of 2012)	332,276.4	90.2	1.3

We plan to increase our offering of Licensed Products, medical devices, food and healthcare products, which we believe will increase our sales by optimising our product portfolio. We expect revenue from the above products to increase at a faster pace compared to other products in the future. We also aim to optimise the current locations of our retail pharmacies by opening new pharmacies at selected strategic locations while closing those with unsatisfactory performances.

Pharmaceutical Distribution

Our pharmaceutical distribution business generates revenue primarily from sales of prescription and over-the-counter pharmaceutical products and other healthcare products and medical supplies to hospitals, and other pharmaceutical product retailers and distributors. In 2010, 2011 and 2012 and the six months ended 30 June 2013, revenue of our pharmaceutical distribution was RMB472.2 million, RMB947.8 million, RMB1,414.1 million and RMB756.2 million, respectively. The revenue growth during these periods was primarily driven by (i) the expansion of our distribution network and product portfolio, (ii) more sales generated from our existing customers, and (iii) the increased overall market demand for pharmaceutical products. During the same periods, the ten largest customers of our distribution business accounted for 7.6%, 7.5%, 10.8% and 4.3% of the total revenue from our distribution business, respectively.

The following table sets forth our revenue growth attributable to the distribution companies acquired during the periods indicated.

	Revenue increase		Attributable to distribution companies acquired during the period
	Amount (RMB'000)	(%)	(%)
2011 (vs. 2010)	475,633.7	100.7	64.3
2012 (vs. 2011)	466,262.5	49.2	–
First half of 2013 vs. (first half of 2012)	150,180.1	24.8	–

Cost of Sales, Gross Profit and Gross Margin

The following table sets out a breakdown of our revenue, cost of sales, gross profit and gross margin by business segment for the periods indicated.

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue	Amount	% of revenue
	(RMB'000, except percentages)									
							(unaudited)			
Pharmaceutical Retail										
Revenue	386,419.6	100.0	526,074.8	100.0	912,202.5	100.0	368,519.0	100.0	700,795.4	100.0
Cost of sales	238,667.7	61.8	332,153.9	63.1	592,372.3	64.9	238,604.1	64.7	431,700.9	61.6
Gross profit	147,751.9	38.2	193,920.9	36.9	319,830.2	35.1	129,914.9	35.3	269,094.5	38.4
Pharmaceutical Distribution										
Revenue	472,193.2	100.0	947,826.9	100.0	1,414,089.4	100.0	606,014.4	100.0	756,194.5	100.0
Cost of sales	380,203.9	80.5	763,603.7	80.6	1,188,151.0	84.0	507,779.0	83.8	641,573.1	84.8
Gross profit	91,989.3	19.5	184,223.2	19.4	225,938.4	16.0	98,235.4	16.2	114,621.4	15.2

The following table set forth the breakdown of revenue, cost of sales, gross profit and gross margin for our retail and distribution product mix for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	(RMB'000, except percentages)				
Pharmaceutical Retail					
Licensed Products					
Revenue	43,080.8	45,113.5	66,008.3	23,936.0	47,710.2
Cost of sales	18,794.7	18,240.1	28,181.2	7,709.6	21,106.6
Gross profit	24,286.1	26,873.4	37,827.1	16,226.4	26,603.6
Gross margin	56.4%	59.6%	57.3%	67.8%	55.8%
Products with exclusive distribution rights					
Revenue	65,102.1	113,044.8	200,355.4	84,747.7	108,037.8
Cost of sales	24,730.4	36,796.1	79,902.7	34,306.2	40,117.1
Gross profit	40,371.7	76,248.7	120,452.7	50,441.5	67,920.7
Gross margin	62.0%	67.4%	60.1%	59.5%	62.9%
Other products					
Revenue	278,236.7	367,916.5	645,838.8	259,835.3	545,047.4
Cost of sales	195,142.6	277,117.7	484,288.4	196,588.3	370,477.2
Gross profit	83,094.1	90,798.8	161,550.4	63,247.0	174,570.2
Gross margin	29.9%	24.7%	25.0%	24.3%	32.0%
Pharmaceutical Distribution					
Licensed Products					
Revenue	43,407.5	80,756.4	110,098.2	39,890.3	107,009.8
Cost of sales	29,239.2	55,529.3	75,014.9	26,514.6	85,721.2
Gross profit	14,168.3	25,227.1	35,083.3	13,375.7	21,288.6
Gross margin	32.6%	31.2%	31.9%	33.5%	19.9%
Products with exclusive distribution rights					
Revenue	142,941.4	268,895.0	274,167.0	114,537.0	104,226.3
Cost of sales	94,758.0	170,642.8	181,463.5	80,344.2	78,979.2
Gross profit	48,183.4	98,252.2	92,703.5	34,192.8	25,247.1
Gross margin	33.7%	36.5%	33.8%	29.9%	24.2%
Other products					
Revenue	285,844.3	598,175.5	1,029,824.2	451,587.1	544,958.4
Cost of sales	256,206.7	537,431.6	931,672.6	400,920.2	476,872.7
Gross profit	29,637.6	60,743.9	98,151.6	50,666.9	68,085.7
Gross margin	10.4%	10.2%	9.5%	11.2%	12.5%

Cost of sales consists of finished goods used and sales tax. Our cost of sales was RMB618.9 million, RMB1,095.8 million, RMB1,780.5 million and RMB1,073.3 million in 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. The increase in cost of sales in these periods corresponded to the growth in sales as well as an increase in the prices of merchandise we purchased.

In 2010, 2011 and 2012 and the six months ended 30 June 2013, our gross profit was RMB239.7 million, RMB378.1 million, RMB545.8 million and RMB383.7 million, respectively. Our gross margin, which equals gross profit divided by revenue, was 27.9%, 25.7%, 23.5% and 26.3%, in the same periods, respectively. The decreases in gross margin in 2011 and 2012 were primarily due to (i) our acquisition of companies with lower gross margins than ours in 2011 and 2012 and it takes time to bring the acquired companies' gross margin up to our standard, and (ii) our special promotional events, such as discounted products in 2011 and 2012, which we offer from time to time as one of our strategies to expand our customer base. The increase in gross margin in the six months ended 30 June 2013 was primarily due to (i) adjustment of the product mix in our pharmacies to offer a greater proportion of Licensed Products and products with exclusive distribution rights, which are high-margin products, and (ii) our promotional activities.

The gross margin for Licensed Products in our pharmaceutical distribution business decreased from 31.9% in 2012 to 19.9% in the six months ended 30 June 2013, primarily due to a series of promotional and marketing activities that we undertook in the six months ended 30 June 2013 in order to rapidly gain market share and increase brand awareness. Such activities included costs relating to trade fairs, temporary product discounts and sales commissions based on performance, which offset the growth in revenue from Licensed Products in our pharmaceutical distribution business. Going forward, we intend to be more selective with respect to promotional and marketing activities for such products and we expect that the corresponding gross margin will increase accordingly.

The gross margin for products with exclusive distribution rights in our pharmaceutical distribution business decreased from 33.8% in 2012 to 24.2% in the six months ended 30 June 2013, primarily because in the first half of 2013, we reclassified certain high-margin products that were previously products with exclusive distribution rights into Licensed Products. Since then, we have introduced new products with exclusive distribution rights to replace the reclassified high-margin products and we expect that the corresponding gross margin may increase accordingly.

Selling and Marketing Expenses

Our selling and marketing expenses primarily comprise (i) employee benefit expense for sales and marketing staff, (ii) advertising and other marketing expenses, (iii) transportation and related charges and (iv) rental expenses. The table below sets out a breakdown of our selling and marketing expenses for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
			(RMB'000)	(unaudited)	
Employee benefit expense	25,960	36,889	71,951	30,108	59,525
Advertising and other marketing expenses	14,706	18,320	22,125	9,733	9,997
Transportation and related charges	11,679	25,085	40,077	17,268	25,848
Rental expenses	10,400	15,920	38,416	14,095	29,065
Tax expenses	157	146	249	138	792
Office and communication expenses	3,100	3,445	5,726	2,386	3,464
Depreciation of property, plant and equipment	915	2,096	6,924	2,897	5,829
Travelling and meeting expenses	192	522	992	420	930
Electricity and other utility fees	–	86	951	42	1,380
Other expenses	214	501	1,476	548	933
Total	**67,323**	**103,010**	**188,887**	**77,635**	**137,763**

Administrative Expenses

Our administrative expenses primarily consist of employee benefit expense, amortisation of intangible assets, tax expenses, office and communication expenses, professional fees and travelling and meeting expenses. The table below sets out a breakdown of our administrative expenses for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
			(RMB'000)	(unaudited)	
Employee benefit expense	8,067	15,267	21,216	10,965	15,431
Amortisation of intangible assets	–	1,565	5,074	1,761	4,003
Transportation and related charges	4	205	315	103	157
Rental expenses	475	346	100	50	3,590
Tax expenses	707	1,059	2,834	887	1,143
Office and communication expenses	577	1,724	2,465	1,163	1,017
Depreciation of property, plant and equipment	782	679	1,863	993	1,685
Professional fees	–	878	2,938	490	1,386
Auditor's remuneration	500	1,280	1,980	990	1,000
Travelling and meeting expenses	206	7,589	2,051	68	176
Electricity and other utility fees	86	146	298	67	275
Other expenses	221	5	840	325	385
Total	**11,625**	**30,743**	**41,974**	**17,862**	**30,248**

Other Income

Other income primarily comprises income from property leases, equipment leases and government subsidies. In 2010, 2011 and 2012 and the six months ended 30 June 2013, our other income was RMB2.2 million, RMB0.5 million, RMB1.1 million and RMB28,000, respectively.

Other Losses, Net

Other losses primarily comprise losses we incurred from the disposal of property, plant and equipment and a loss on financial assets at fair value in 2012. In 2010, 2011 and 2012 and the six months ended 30 June 2013, our other losses were RMB2.1 million, RMB25,000, RMB14.3 million and RMB1.2 million, respectively. In 2012, we invested in financial assets, in particular paper gold, for which we recorded a fair value loss. We had received funds in the form of a shareholder's loan in 2011 to finance our business expansion in 2011 and 2012, primarily through acquisitions of suitable target entities. In 2012, during the process of identifying suitable acquisition targets, we channeled a portion of the remaining funds from the shareholder's loan into investments in paper gold as a transient investment. As at February 2013, we have sold all of our holdings in paper gold, and do not intend to invest in any commodities or enter into any derivative contracts going forward. Please see "– *Certain Statements of Financial Position Items – Trade and Other Payables*" for further details regarding our shareholder's loan.

Finance Income

Finance income primarily comprises income from exchange gain, bank deposits and loans to related parties. In 2010, 2011 and 2012 and the six months ended 30 June 2013, our finance income was RMB2.7 million, RMB5.8 million, RMB3.2 million and RMB2.4 million, respectively. For further details on our loans to related parties, please see "– *Indebtedness – Related-party Transactions/Indebtedness.*"

Finance Costs

Finance costs primarily comprise wire transfer fees. In 2010, 2011 and 2012 and the six months ended 30 June 2013, our finance costs were RMB34,000, RMB79,000, RMB0.2 million and RMB0.2 million, respectively.

Income Tax Expense

Our subsidiaries in PRC are subject to corporate income tax at a rate of 25% on the taxable income or deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit. Our effective tax rate in 2010, 2011 and 2012 and the six months ended 30 June 2013 was 25.1%, 24.8%, 25.7% and 24.6%, respectively.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

The table below sets out our historical consolidated statements of comprehensive income for the periods indicated.

Consolidated Statements of Comprehensive Income

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
			(RMB'000)	(unaudited)	
Revenue	858,613	1,473,902	2,326,292	974,533	1,456,990
Cost of sales	(618,872)	(1,095,758)	(1,780,523)	(746,383)	(1,073,274)
Gross profit	239,741	378,144	545,769	228,150	383,716
Selling and marketing expenses	(67,323)	(103,010)	(188,887)	(77,635)	(137,763)
Administrative expenses	(11,625)	(30,743)	(41,974)	(17,862)	(30,248)
Other income	2,209	482	1,122	–	28
Other losses – net	(2,086)	(25)	(14,275)	(26,910)	(1,236)
Operating profit	160,916	244,848	301,755	105,743	214,497
Finance income	2,723	5,822	3,176	2,813	2,425
Finance costs	(34)	(79)	(188)	(60)	(157)
Finance income – net	2,689	5,743	2,988	2,753	2,268
Share of profit of joint ventures	–	632	1,137	557	808
Profit before income tax	163,605	251,223	305,880	109,053	217,573
Income tax expense	(41,095)	(62,377)	(78,517)	(33,791)	(53,527)
Profit and total comprehensive income for the years	122,510	188,846	227,363	75,262	164,046
Profit and total comprehensive income attributable to:					
– Owners of the Company	122,510	180,117	213,760	69,307	150,780
– Non-controlling interests	–	8,729	13,603	5,955	13,266
Earnings per share attributable to owners of the Company					
– Basic and diluted earnings per share[(1)]	123	180	214	69	151

Note:

(1) The earnings per share as presented above is calculated using the weighted average number of ordinary shares of 1,000 shares for each of the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013. It has not taken into account the proposed capitalisation issue of 1,599,998,999 shares pursuant to the shareholder resolutions in November 2013 because the proposed capitalisation issue has not become effective as at the date of the Accountant's Report set out in Appendix I to this prospectus. The earnings per share for each of the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013 after taking into account the proposed capitalisation issue of 1,599,998,999 shares pursuant to the shareholder resolutions in November 2013 amounted to RMB0.0766, RMB0.1126, RMB0.1336, RMB0.0433 and RMB0.0942, respectively.

Six Months Ended 30 June 2013 Compared to Six Months Ended 30 June 2012

Revenue

Our total revenue increased by 49.5% from RMB974.5 million in the six months ended 30 June 2012 to RMB1,457.0 million in the six months ended 30 June 2013. This increase was primarily attributable to (i) the revenue growth of Jintian Management and its subsidiaries, (ii) the revenue growth of our businesses acquired in 2011 and (iii) the revenue generated by our businesses acquired in 2012. Of the RMB482.5 million increase in total revenue from the six months ended 30 June 2012 to the six months ended 30 June 2013, revenue growth from Jintian Management and its subsidiaries, our businesses acquired in 2011 and our businesses acquired in 2012 accounted for 15.7%, 36.7% and 46.8%, respectively.

Retail. Our revenue from our retail business increased by 90.2% from RMB368.5 million in the six months ended 30 June 2012 to RMB700.8 million in the six months ended 30 June 2013. This increase was primarily attributable to (i) the revenue growth of pharmacies under Jintian Management and its subsidiaries, (ii) the revenue growth of our pharmacies acquired in 2011, (iii) the revenue growth of our pharmacies acquired in the first half of 2012 and (iv) the revenue generated by pharmacies opened or acquired in the second half of 2012, in particular Wei Kang, which we acquired in August 2012. Of the RMB332.3 million increase in revenue from our retail business from the six months ended 30 June 2012 to the six months ended 30 June 2013, revenue growth from pharmacies under Jintian Management and its subsidiaries, our pharmacies acquired in 2011 and our pharmacies acquired in the first half of 2012 accounted for 18.3%, 12.5% and 9.6%, respectively, and revenue generated by our pharmacies acquired in the second half of 2012 accounted for 58.3%.

Distribution. Our revenue from our distribution business increased by 24.8% from RMB606.0 million in the six months ended 30 June 2012 to RMB756.2 million in the six months ended 30 June 2013. This increase was primarily attributable to (i) the revenue growth of the companies under Jintian Management and its subsidiaries and (ii) the revenue growth of the pharmaceutical distribution companies that we acquired in 2011. Of the RMB150.2 million increase in revenue from our distribution business from the six months ended 30 June 2012 to the six months ended 30 June 2013, revenue growth from our pharmaceutical distribution companies under Jintian Management and its subsidiaries and the pharmaceutical distribution companies that we acquired in 2011 accounted for 10.0% and 90.0%, respectively.

Cost of Sales, Gross Profit and Gross Margin

Cost of sales increased by 43.8% from RMB746.4 million in the six months ended 30 June 2012 to RMB1,073.3 million in the six months ended 30 June 2013. This increase was consistent with the growth in our revenue during the same period.

As a result of the foregoing, our gross profit was RMB228.2 million and RMB383.7 million in the six months ended 30 June 2012 and 2013, respectively. Our gross margin was 23.4% and 26.3% in the same periods, respectively.

Retail. Our cost of sales for our retail business increased by 80.9% from RMB238.6 million in the six months ended 30 June 2012 to RMB431.7 million in the six months ended 30 June 2013. This increase was consistent with the growth in our revenue during the same period. Our gross profit from our retail business increased significantly from RMB129.9 million in the six months ended 30 June 2012 to RMB269.1 million in the six months ended 30 June 2013. Our gross margin for our retail business increased from 35.3% in the six months ended 30 June 2012 to 38.4% in the six months ended 30 June 2013. This increase was primarily due to (i) adjustment of the product mix in our pharmacies to offer a greater proportion of Licensed Products and products with exclusive distribution rights, which are High-gross-margin Products and (ii) the promotional activities focusing on the High-gross-margin Products.

Distribution. Our cost of sales for our distribution business increased by 26.3% from RMB507.8 million in the six months ended 30 June 2012 to RMB641.6 million in the six months ended 30 June 2013. This increase was consistent with the growth in our revenue during the same period. Our gross profit from our distribution business increased by 16.7% from RMB98.2 million in the six months ended 30 June 2012 to RMB114.6 million in the six months ended 30 June 2013. Our gross margin for our distribution business decreased from 16.2% in the six months ended 30 June 2012 to 15.2% in the six months ended 30 June 2013. This decrease was primarily due to (i) our promotional arrangements with distribution customers during a portion of this period, which resulted in an increase in our cost of sales for our distribution business and (ii) the decrease in our distribution to hospital customers, which generally yield higher profit margins, as a proportion of our total distribution; this proportionate reduction was in line with our strategy to lower our trade receivables turnover days, which are generally higher for our hospital customers.

Selling and Marketing Expenses

Selling and marketing expenses increased by 77.4% from RMB77.6 million in the six months ended 30 June 2012 to RMB137.8 million in the six months ended 30 June 2013. This increase was primarily due to the increases in employee benefit expenses, rental expenses and transportation and related charges as a result of our business expansion, in particular our acquisition of Wei Kang in August 2012.

Administrative Expenses

Administrative expenses increased by 69.3% from RMB17.9 million in the six months ended 30 June 2012 to RMB30.2 million in the six months ended 30 June 2013. This increase was primarily due to the increases in employee benefit expense and amortisation of intangible assets and professional fees as a result of our business expansion through acquisitions. The increase in employee benefit expense was in line with the increase of our number of employees as a result of our business expansion.

Other Income

Other income was nil and RMB28,000 in the six months ended 30 June 2012 and 2013, respectively.

Other Loss

Other loss decreased substantially from RMB26.9 million in the six months ended 30 June 2012 to RMB1.2 million in the six months ended 30 June 2013. This decrease was primarily due to a loss on paper gold held by us during a period within the six months ended 30 June 2012 which was accounted for at fair value, and which we sold in full as at February 2013.

Operating Profit and Operating Margin

As a result of the foregoing, our operating profit increased by 102.8% from RMB105.7 million in the six months ended 30 June 2012 to RMB214.5 million in the six months ended 30 June 2013. Our operating margin increased from 10.9% in the six months ended 30 June 2012 to 14.7% in the six months ended 30 June 2013.

Finance Income – net

Net finance income decreased by 17.6% from RMB2.8 million in the six months ended 30 June 2012 to RMB2.3 million in the six months ended 30 June 2013. This decrease was primarily due to a decrease in interest income on bank deposits.

Share of Profit of Joint Ventures

Our share of profit of joint ventures increased by 45.1% from RMB0.6 million in the six months ended 30 June 2012 to RMB0.8 million in the six months ended 30 June 2013. The increase in the six months ended 30 June 2013 from the six months ended 30 June 2012 was primarily because we strengthened our training efforts towards our joint venture partners with respect to management and marketing.

Profit before Income Tax

Profit before income tax increased by 99.5% from RMB109.1 million in the six months ended 30 June 2012 to RMB217.6 million in the six months ended 30 June 2013.

Income Tax Expense

Income tax expense increased by 58.4% from RMB33.8 million in the six months ended 30 June 2012 to RMB53.5 million in the six months ended 30 June 2013, primarily due to the increase in our profit before income tax. Our effective income tax rate decreased from 31.0% in the six months ended 30 June 2012 to 24.6% in the six months ended 30 June 2013. This decrease was primarily because one of our subsidiaries had a net loss due to the fair value loss on its investment of paper gold in the six months ended 30 June 2012, which had an impact on our profit before income tax but not on our income tax expense while there was no such loss in the six months ended 30 June 2013.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit increased significantly from RMB75.3 million in the six months ended 30 June 2012 to RMB164.0 million in the six months ended 30 June 2013. Our profit margin increased from 7.7% in the six months ended 30 June 2012 to 11.3% in the six months ended 30 June 2013.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenue

Our total revenue increased by 57.8% from RMB1,473.9 million in 2011 to RMB2,326.3 million in 2012. This increase was attributable to (i) the revenue growth of Jintian Management and its subsidiaries, (ii) the revenue growth of our businesses acquired in 2011, (iii) the revenue generated by our businesses acquired in 2012. Of the RMB852.4 million increase in total revenue from 2011 to 2012, revenue growth from Jintian Management and its subsidiaries and our businesses acquired in 2011 accounted for 17.9% and 60.7%, respectively, and revenue generated by our businesses acquired in 2012 accounted for 21.4%.

Retail. Our revenue from our retail business increased by 73.4% from RMB526.1 million in 2011 to RMB912.2 million in 2012. This increase was attributable to (i) the revenue growth of pharmacies under Jintian Management and its subsidiaries, (ii) the revenue growth of our pharmacies acquired in 2011 and (iii) the revenue generated by our pharmacies opened or acquired in 2012. Of the RMB386.1 million increase in revenue from our retail business from 2011 to 2012, revenue growth from pharmacies under Jintian Management and its subsidiaries, our pharmacies acquired in 2011 and our pharmacies opened and acquired in 2012 accounted for 21.9%, 30.8% and 47.3%, respectively.

Distribution. Our revenue from our distribution business increased by 49.2% from RMB947.8 million in 2011 to RMB1,414.1 million in 2012. This increase was attributable to (i) the revenue growth of the companies under Jintian Management and its subsidiaries and (ii) the revenue growth of the pharmaceutical distribution companies that we acquired in 2011. Of the RMB466.3 million increase in revenue from our distribution business from 2011 to 2012, revenue growth from our pharmaceutical distribution companies under Jintian Management and its subsidiaries and the pharmaceutical distribution companies that we acquired in 2011 accounted for 14.6% and 85.4%, respectively.

Cost of Sales, Gross Profit and Gross Margin

Cost of sales increased by 62.5% from RMB1,095.8 million in 2011 to RMB1,780.5 million in 2012. This increase was consistent with the growth in our revenue during the same period.

As a result of the foregoing, our gross profit was RMB378.1 million and RMB545.8 million in 2011 and 2012, respectively. Our gross margin was 25.7% and 23.5% in the same periods, respectively.

Retail. Our cost of sales for our retail business increased by 78.3% from RMB332.2 million in 2011 to RMB592.4 million in 2012. This increase was consistent with the growth in our revenue during the same period. Our gross profit from our retail business increased by 64.9% from RMB193.9 million in 2011 to RMB319.8 million in 2012. Our gross margin for our retail business decreased from 36.9% in 2011 to 35.1% in 2012. This decrease was primarily due to (i) our acquisition of pharmacies with lower gross margin than us in 2012 and it takes time to bring the acquired pharmacies' gross margin up to our standard, and (ii) our special promotional events, such as discounted products, which we offer from time to time to expand our customer base.

Distribution. Our cost of sales for our distribution business increased by 55.6% from RMB763.6 million in 2011 to RMB1,188.2 million in 2012. This increase was consistent with the growth in our revenue during the same period. Our gross profit from our distribution business increased by 22.6% from RMB184.2 million in 2011 to RMB225.9 million in 2012. Our gross margin for our distribution business decreased from 19.4% in 2011 to 16.0% in 2012. This decrease was primarily because we acquired companies with lower gross margins than us in 2012 and it takes time to bring the acquired companies' gross margins up to our standard.

Selling and Marketing Expenses

Selling and marketing expenses increased by 83.4% from RMB103.0 million in 2011 to RMB188.9 million in 2012. This increase was primarily due to the increases in employee benefit expense, rental expenses and transportation and related charges as a result of our business expansion through acquisitions. The increase in employee benefit expense was in line with the increase of our number of employees as a result of our business expansion through acquisitions and organic growth.

Administrative Expenses

Administrative expenses increased by 36.5% from RMB30.7 million in 2011 to RMB42.0 million in 2012. This increase was primarily due to the increases in employee benefit expense, amortisation of intangible assets and professional fees as a result of our business expansion through acquisitions. The increase in employee benefit expense was in line with the increase of our number of employees as a result of our business expansion. The professional fees primarily consist of (i) fees to internal control consultants for the purpose of upgrading our internal control system and (ii) fees to legal advisors and accountants for the purpose of executing our acquisitions.

Other Income

Other income increased substantially from RMB0.5 million in 2011 to RMB1.1 million in 2012. This increase was primarily due to a government subsidy of approximately RMB1.0 million granted to us for participating in a government employment initiative.

Other Loss

Other loss increased substantially from RMB25,000 in 2011 to RMB14.3 million in 2012. This increase was primarily due to a loss on paper gold held by us at the time, which was accounted for at fair value.

Operating Profit and Operating Margin

As a result of the foregoing, our operating profit increased by 23.2% from RMB244.8 million in 2011 to RMB301.8 million in 2012. Our operating margin decreased from 16.6% in 2011 to 13.0% in 2012.

Finance Income – net

Net finance income decreased by 48.0% from RMB5.7 million in 2011 to RMB3.0 million in 2012. This decrease was primarily due to reduced exchange gain in 2012, partially offset by an increase in interest income on bank deposits in 2012.

Share of Profit of Joint Ventures

Our share of profit of joint ventures increased by 79.9% from RMB0.6 million in 2011 to RMB1.1 million in 2012. The increase in 2012 from 2011 was primarily because our joint ventures recorded revenue in 2011 from August to December, while they recorded revenue in 2012 during the full year.

Profit before Income Tax

Profit before income tax increased by 21.8% from RMB251.2 million in 2011 to RMB305.9 million in 2012.

Income Tax Expense

Income tax expense increased by 25.9% from RMB62.4 million in 2011 to RMB78.5 million in 2012, primarily due to the increase in our profit before income tax.

Our effective income tax rate increased from 24.8% in 2011 to 25.7% in 2012. This increase was primarily due to an increase in provisions for deferred income tax asset. We made such provisions in response to the differences between tax laws and accounting policies regarding our acquisitions in 2011 and 2012.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased by 20.4% from RMB188.8 million in 2011 to RMB227.4 million in 2012. Our profit margin decreased from 12.8% in 2011 to 9.8% in 2012, primarily because we acquired companies with lower net profit margin than us in 2012 and it takes time to bring the acquired companies' net profit margin up to our standard.

Year Ended 31 December 2011 Compared to Year Ended 31 December 2010

Revenue

Our total revenue increased by 71.7% from RMB858.6 million in 2010 to RMB1,473.9 million in 2011. This increase was attributable to (i) the organic revenue growth of Jintian Management and its subsidiaries and (ii) revenue from our business acquisitions in 2011. Of the RMB615.3 million increase in revenue from 2010 to 2011, revenue growth from businesses under Jintian Management and its subsidiaries and businesses acquired in 2011 accounted for 42.8% and 57.2%, respectively.

Retail. Our revenue from retail increased by 36.1% from RMB386.4 million in 2010 to RMB526.1 million in 2011. This increase was attributable to (i) the organic revenue growth of retail pharmacies operated under Jintian Management and its subsidiaries and (ii) our retail pharmacies acquired in 2011. Of the RMB139.7 million increase in revenue from our retail business from 2010 to 2011, revenue growth from pharmacies under Jintian Management and its subsidiaries accounted for 66.9% and revenue generated by our pharmacies acquired in 2011 accounted for 33.1%.

Distribution. Our revenue from distribution increased by 100.7% from RMB472.2 million in 2010 to RMB947.8 million in 2011. This increase was attributable to (i) the organic revenue growth of the pharmaceutical distribution companies operated under Jintian Management and its subsidiaries and (ii) revenue from the pharmaceutical distribution companies we acquired in 2011. Of the RMB475.6 million increase in revenue from our distribution business from 2010 to 2011, revenue growth from pharmaceutical distribution companies under Jintian Management and its subsidiaries and our pharmaceutical distribution companies acquired in 2011 accounted for 35.7% and 64.3%, respectively.

Cost of Sales, Gross Profit and Gross Margin

Cost of sales increased by 77.1% from RMB618.9 million in 2010 to RMB1,095.8 million in 2011. This increase was consistent with the growth in our revenue during the same period.

As a result of the foregoing, our gross profit increased by 57.7% from RMB239.7 million in 2010 to RMB378.1 million in 2011. Our gross margin was 27.9% and 25.7% in the same periods, respectively.

Retail. Our cost of sales for our retail business increased by 39.2% from RMB238.7 million in 2010 to RMB332.2 million in 2011. This increase was consistent with the growth in our revenue during the same period. Our gross profit from our retail business increased by 31.2% from RMB147.7 million in 2010 to RMB193.9 million in 2011. Our gross margin for our retail business decreased by 1.3% from 38.2% in 2010 to 36.9% in 2011. This decrease was primarily due to (i) our acquisition of pharmacies with lower gross margin than us in 2011 and it takes time to bring the acquired pharmacies' gross margin up to our standard, and (ii) our special promotional events, such as discounted products, which we offer from time to time to expand our customer base.

Distribution. Our cost of sales for our distribution business increased by 100.8% from RMB380.2 million in 2010 to RMB763.6 million in 2011. This increase was primarily due to the decrease in our distribution to hospital customers, which generally yield higher profit margins, as a proportion of our total distribution. This proportionate reduction was in line with our strategy to lower our trade receivables turnover days, which are generally higher for our hospital customers. Our gross profit from our distribution business increased by 100.2% from RMB92.0 million in 2010 to RMB184.2 million in 2011. Our gross margin for our distribution business remained relatively stable from 19.5% in 2010 to 19.4% in 2011.

Selling and Marketing Expenses

Selling and marketing expenses increased by 53.0% from RMB67.3 million in 2010 to RMB103.0 million in 2011. This increase was primarily attributable to the increases in employee benefit expense, rental expenses and transportation and related charges as a result of our business expansion. The increase in employee benefit expense was in line with the increase of our number of employees as a result of our business expansion through acquisitions and organic growth.

Administrative Expenses

Administrative expenses increased significantly from RMB11.6 million in 2010 to RMB30.7 million in 2011. This increase was primarily attributable to a travelling and meeting expense and the increase in employee benefit expense. The travelling and meeting expense was incurred in connection with business development initiatives involving our senior management, including meetings abroad with potential business partners to explore opportunities beyond the PRC. The increase in employee benefit expense was in line with the increase of our number of employees as a result of our business expansion.

Other Income

Other income decreased by 78.2% from RMB2.2 million in 2010 to RMB0.5 million in 2011. This decrease was primarily attributable to a decrease in income from management fees as a result of our waiver of the management fee on certain contracted pharmacies with high growth potential in order to promote their development.

Other Loss

Other loss decreased substantially from RMB2.1 million in 2010 to RMB25,000 in 2011. This decrease was primarily attributable to a loss of RMB2.1 million arising from our disposal of obsolete fixed assets in 2010.

Operating Profit and Operating Margin

As a result of the foregoing, our operating profit increased by 52.2% from RMB160.9 million in 2010 to RMB244.8 million in 2011. Our operating margin decreased from 18.7% in 2010 to 16.6% in 2011.

Finance Income – net

Net finance income increased substantially from RMB2.7 million in 2010 to RMB5.7 million in 2011. This increase was primarily attributable to foreign exchange gains and an increase in interest income on bank deposits in 2011, partially offset by interest income on loans to a related party that we received in 2010 but not 2011.

Share of Profit of Joint Ventures

Our share of profit of joint ventures was RMB0.6 million in 2011. We did not have equity interests in any joint ventures in 2010.

Profit before Income Tax

Profit before income tax increased by 53.6% from RMB163.6 million in 2010 to RMB251.2 million in 2011.

Income Tax Expense

Income tax expense increased by 51.8% from RMB41.1 million in 2010 to RMB62.4 million in 2011, primarily due to the increase in our profit before income tax.

Our effective income tax rate decreased from 25.1% in 2010 to 24.8% in 2011. This decrease was primarily due to the fact that some of our businesses acquired in 2011 were subject to corporate income tax under the deemed profit method, which was much lower than 25%.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased by 54.1% from RMB122.5 million in 2010 to RMB188.8 million in 2011. Our profit margin decreased from 14.3% in 2010 to 12.8% in 2011.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our liquidity requirements primarily include (i) working capital, (ii) acquiring subsidiaries and businesses, (iii) opening pharmacies, (iv) purchasing fixed assets and (v) upgrading our IT system. Historically, we have financed our working capital requirements, acquisitions and capital expenditures through cash generated from our operations and proceeds raised from the Pre-listing Investments in 2011. Going forward, we expect these sources to continue to be our principal sources of liquidity. In addition, if our capital expenditures or other long-term commitments increase, or if we need significant financing for acquisitions, we may decide to incur additional long-term indebtedness or bank borrowings, depending on our financial condition at the time, taking into account net proceeds from the Global Offering.

Cash Flows

The following table sets out a summary of our consolidated cash flows for the periods indicated.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
			(RMB'000)	(unaudited)	
Net cash from operating activities	107,378	121,795	161,628	38,475	170,225
Net cash generated from/(used in) investing activities	35,534	(179,022)	(323,421)	(192,904)	(34,222)
Net cash (used in)/generated from financing activities	(105,834)	663,799	(95,531)	(10,754)	2,061
Net increase/(decrease) in cash	37,078	606,572	(257,324)	(165,183)	138,064
Cash at the beginning of the year	69,948	107,025	713,257	713,257	455,916
Exchange gains/(losses) on cash	(1)	(340)	(17)	316	(1,112)
Cash at the end of the year	**107,025**	**713,257**	**455,916**	**548,390**	**592,868**

Cash flow from operating activities

In the six months ended 30 June 2013, our net cash from operating activities of RMB170.2 million was attributable to our cash generated from operations in the amount of RMB228.1 million, partially offset by income tax paid of RMB57.7 million. Operating cash flow before movements in working capital was RMB227.3 million. Changes in working capital contributed to a net cash inflow of RMB0.9 million, comprising primarily a decrease in trade and other receivables of RMB37.7 million, partially offset by an decrease in trade and other payables of RMB32.8 million. The cash inflow in connection with the decrease in trade and other receivables was primarily attributable to our improved collection in the six months ended 30 June 2013. The cash outflow in connection with the decrease in trade and other payables was primarily attributable to an increase in our frequency of purchases from suppliers to accommodate with the market demand, which required that we settle outstanding trade payables prior to new purchases.

In the six months ended 30 June 2012, our net cash from operating activities of RMB38.5 million was attributable to our cash generated from operations in the amount of RMB79.9 million, partially offset by income tax paid of RMB41.3 million. Operating cash flow before movements in working capital was RMB138.3 million. Changes in working capital contributed to a net cash outflow of RMB58.4 million, comprising primarily an increase in trade and other receivables of RMB77.1 million, partially offset by an increase in trade and other payables of RMB24.2 million. The cash outflow in connection with the increase in trade and other receivables was primarily attributable to trade receivables recorded by companies that we acquired in the first half of 2012 and the increase in our sales. The cash inflow in connection with the increase in trade and other payables was primarily attributable to pre-existing trade payables incurred by companies that we acquired in the first half of 2012 and the increase in our procurement.

In 2012, our net cash from operating activities of RMB161.6 million was attributable to our cash generated from operations in the amount of RMB243.2 million, partially offset by income tax paid of RMB81.4 million. Operating cash flow before movements in working capital was RMB329.8 million. Changes in working capital contributed to a net cash outflow of RMB86.6 million, comprising primarily a decrease in trade and other payables of RMB120.6 million, partially offset by a decrease in trade and other receivables of RMB44.1 million. The cash outflow in connection with the decrease in trade and other payables was primarily attributable to our repayment of RMB134.8 million of the RMB176.9 million in our notes payable in 2012. The cash inflow in connection with the decrease in trade and other receivables was primarily attributable to our improved collection in 2012. Please see *"Appendix I – Accountant's Report – Notes 27"* for further details.

In 2011, our net cash from operating activities of RMB121.8 million was attributable to our cash generated from operations in the amount of RMB173.1 million, partially offset by income tax paid of RMB51.3 million. Operating cash flow before movements in working capital was RMB249.2 million. Changes in working capital contributed to a net cash outflow of RMB76.1 million, comprising primarily (i) an increase in trade and other receivables of RMB63.5 million; and (ii) an increase in inventories of RMB28.9 million. The increases in trade and other receivables and inventories were primarily due to our acquisitions in 2011 and the increase in our sales.

In 2010, our net cash from operating activities of RMB107.4 million was attributable to our cash generated from operations in the amount of RMB146.6 million, partially offset by income tax paid of RMB39.1 million. Operating cash flow before movements in working capital was RMB164.7 million. Changes in working capital contributed to a net cash outflow of RMB18.1 million, comprising primarily (i) an increase in trade and other receivables of RMB18.9 million; and (ii) an increase in inventories of RMB3.8 million. The increases in trade and other receivables and inventories were primarily due to the increase in our sales.

Cash flow from/used in investing activities

In the six months ended 30 June 2013, our net cash used in investing activities amounted to RMB34.2 million. This net cash outflow was primarily attributable to (i) RMB107.2 million paid for acquisition of entities and businesses, which primarily related to our acquisitions of Jilin Fuhe Jitai and 182 contracted pharmacies, and (ii) RMB38.0 million paid for the purchase of property, plant and equipment, which primarily related to investments in fixed assets for newly acquired companies, and newly opened self-operated pharmacies, partially offset by RMB95.8 million in cash received for financial assets at fair value, which primarily related to the sale of all of our holdings in paper gold as at February 2013.

In the six months ended 30 June 2012, our net cash used in investing activities amounted to RMB192.9 million. This net cash outflow was primarily attributable to (i) RMB156.1 million in net cash paid for financial assets at fair value through profit or loss, which primarily related to our purchases of financial assets as investment products, in particular paper gold, and (ii) RMB28.2 million paid for the acquisition of subsidiaries and businesses net of cash acquired, which primarily related to our acquisitions of Harbin Jintian Aixin and Da Qing Jintian Aixin in the first half of 2012.

In 2012, our net cash used in investing activities amounted to RMB323.4 million. This net cash outflow was primarily attributable to (i) RMB173.7 million paid for acquisition of entities and businesses, which primarily related to our acquisition of Wei Kang, (ii) RMB111.0 million paid for the purchase of financial assets at fair value through profit or loss, and (iii) RMB14.5 million paid for the purchase of property, plant and equipment, which primarily related to investments in fixed assets for newly acquired companies, and newly opened self-operated pharmacies.

In 2011, our net cash used in investing activities amounted to RMB179.0 million. This net cash outflow was primarily attributable to (i) RMB153.3 million paid for acquisitions of entities and businesses, which primarily related to our acquisitions of Sui Hua, Hebei Yanxiao and Chinese medicinal herb business, (ii) RMB14.0 million paid as prepayment for equity investments in Daqing Ci Ji Tang Drug Store Co., Ltd., Boli Bai Kang Drug Store Co., Ltd. and (iii) RMB11.7 million paid for the purchase of property, plant and equipment, which primarily related to investments in fixed assets for newly acquired companies and newly opened self-operated pharmacies.

In 2010, our net cash generated from investing activities amounted to RMB35.5 million. This net cash inflow was primarily attributable to (i) RMB33.8 million received in loan repayments from related parties and (ii) RMB2.7 million received in interest payments from related parties, partially offset by RMB1.0 million paid for the purchase of property, which primarily related to investments in fixed assets for newly opened self-operated pharmacies.

Cash flow from/used in financing activities

In the six months ended 30 June 2013, our net cash from financing activities amounted to RMB2.1 million. This cash inflow was primarily attributable to RMB21.8 million received as a loan from a shareholder, partially offset by RMB19.7 million paid for the purchase of non-controlling interests.

In the six months ended 30 June 2012, our net cash used in financing activities amounted to RMB10.8 million. This cash outflow was primarily attributable to RMB5.8 million for the repayment of a loan from a shareholder and RMB5.0 million for a deemed distribution to the Controlling Shareholder.

In 2012, our net cash used in financing activities amounted to RMB95.5 million. This cash outflow was primarily attributable to (i) RMB49.8 million paid for the purchase of non-controlling interests, and (ii) RMB40.8 million paid as repayment of a loan from a related party.

In 2011, our net cash generated from financing activities amounted to RMB663.8 million. This cash inflow was primarily due to a shareholder's loan of RMB673.0 million. We obtained the shareholder's loan from our parent company, Asia Health, primarily to finance our business acquisitions. It is part of the Pre-listing Investments from our Investors. For further details of the shareholder's loan, please see *"– Trade and Other Payables"*.

In 2010, our net cash used in financing activities amounted to RMB105.8 million. This cash outflow was primarily attributable to (i) dividends paid of RMB106.4 million and (ii) a deemed distribution to the Controlling Shareholder of RMB22.4 million, partially offset by a capital contribution from the Controlling Shareholder of RMB23.0 million.

Working Capital

The Directors are of the view that our internally generated cash flows, together with the net proceeds from the Global Offering, are sufficient to meet our anticipated cash needs, including for working capital and capital expenditures for at least the next twelve months from the date of this prospectus.

CERTAIN CONSOLIDATED BALANCE SHEET INFORMATION

Net Current Assets

The table below sets out our current assets, current liabilities and net current assets as at the dates indicated.

	As at 31 December			As at 30 June	As at 30 September
	2010	2011	2012	2013	2013
			(RMB'000)		(unaudited)
Current assets					
Inventories	80,593	177,929	249,442	270,879	294,772
Trade and other receivables	75,281	209,579	273,730	237,111	255,427
Financial assets at fair value through profit or loss	–	–	96,958	–	–
Restricted cash	–	–	22,474	8,267	9,248
Cash	107,025	713,257	455,916	592,868	671,404
	262,899	**1,100,765**	**1,098,520**	**1,109,125**	**1,230,851**
Current liabilities					
Trade and other payables	70,023	801,352	831,997	832,946	844,458
Current income tax liabilities	11,695	25,608	30,122	28,029	35,673
	81,718	**826,960**	**862,119**	**860,975**	**880,131**
Net current assets	**181,181**	**273,805**	**236,401**	**248,150**	**350,720**

Our net current assets increased by 41.3% from RMB248.2 million as at 30 June 2013 to RMB350.7 million as at 30 September 2013, primarily due to increases in cash and inventories as a result of the continued growth of our business, in particular our pharmaceutical retail business.

Our net current assets increased by 5.0% from RMB236.4 million as at 31 December 2012 to RMB248.2 million as at 30 June 2013, primarily due to an increase in cash, partially offset by a decrease in financial assets at fair value, each as a result of the sale of all of our holdings in paper gold as at February 2013.

Our net current assets decreased by 13.7% from RMB273.8 million as at 31 December 2011 to RMB236.4 million as at 31 December 2012, primarily due to a decrease in cash which was used to fund our business acquisitions, partially offset by (i) an increase in financial assets at fair value as a result of our investment in paper gold, (ii) an increase in inventories as a result of our increased procurement needs to supply our business expansion, and (iii) an increase in trade and other receivables as a result of the growth of our customer base in line with our business expansion.

Our net current assets increased by 51.1% from RMB181.2 million as at 31 December 2010 to RMB273.8 million as at 31 December 2011, primarily due to (i) a significant increase in cash as a result of the shareholder's loan received in 2011, (ii) an increase in inventories as a result of our increased procurement to support our business expansion, and (iii) an increase in trade and other receivables as a result of the growth of our customer base in line with our business expansion, partially offset by a significant increase in trade and other payables attributable to the shareholder's loan received in 2011 from Asia Health, our parent company.

Trade and Other Receivables

The table below sets out a breakdown of our trade and other receivables by component as at the dates indicated.

	As at 31 December			As at 30 June
	2010	2011	2012	2013
		(RMB'000)		
Trade receivables				
Retail (from medical insurance authorities)	8,105	12,607	25,994	29,077
Distribution	58,321	128,838	153,448	138,043
	66,426	**141,445**	**179,442**	**167,120**
Prepayments				
Of rental expense	3,719	11,882	41,876	38,924
Of goods due from related parties	–	17,931	17,469	4,083
Of goods and services from third parties	–	32,816	20,348	11,193
Of taxes	1,636	–	–	–
Value added tax input credits	–	–	3,827	5,575
	5,355	**62,629**	**83,520**	**59,775**
Other receivables				
Expense paid on behalf of a related party	–	673	423	423[1]
Equipment rental from a related party	1,746	–	–	–
Equipment disposal proceeds from a related party	817	–	–	–
Advance to employees	137	1,773	1,408	522
Deposits receivables	689	2,931	6,603	6,870
Others[2]	111	128	2,334	2,401
	3,500	**5,505**	**10,768**	**10,216**
Total trade and other receivables	**75,281**	**209,579**	**273,730**	**237,111**

Notes:

(1) This amount has been fully settled as at the Latest Practicable Date.

(2) Primarily consist of expenses paid on behalf of third parties.

Our trade receivables from medical insurance authorities for our retail business increased by 55.5% from RMB8.1 million as at 31 December 2010 to RMB12.6 million as at 31 December 2011 and further increased by 106.2% to RMB26.0 million as at 31 December 2012, and by 11.9% to RMB29.1 million as at 30 June 2013, primarily due to the expansion of our business and an increased number of sales of products under the medical insurance scheme.

Our trade receivables from customers for our distribution business increased by 120.9% from RMB58.3 million as at 31 December 2010 to RMB128.8 million as at 31 December 2011 and further increased by 19.1% to RMB153.4 million as at 31 December 2012, primarily due to the growth in our customer base in line with the expansion of our business.

Our trade receivables from customers for our distribution business decreased by 10.0% from RMB153.4 million as at 31 December 2012 to RMB138.0 million as at 30 June 2013, primarily due to our improved recovery from hospitals.

The table below sets out a summary of the age of our trade receivables as at the dates indicated.

	As at 31 December			As at 30 June
	2010	2011	2012	2013
		(RMB'000)		
Up to 3 months	63,629	138,377	165,633	162,548
4 to 6 months	1,610	303	11,780	4,305
7 to 12 months	1,187	2,765	2,029	267
Trade receivables	**66,426**	**141,445**	**179,442**	**167,120**

While a large amount of our sales are settled in cash on delivery of goods, we offer most of our distribution customers a credit period up to 90 days. In addition, medical insurance authorities generally have a credit period up to one year. Finally, we allow some of our distribution customers to pay when they order the next batch of products, which is in line with industry practices.

Before offering any credit to a customer, we typically assess the prospective customer's credit history and reputation and determine the credit limit we grant to such customer accordingly. Each of our customers' credit limit is reviewed periodically.

As at 30 September 2013, we had subsequently settled RMB126.8 million, or 75.9%, of our outstanding trade receivables as at 30 June 2013.

We have not made any provisions for impairment loss of these trade receivables as they were either subsequently settled as at 30 September 2013 (the latest practicable date of the indebtedness statement) or most of the customers did not have any recent history of payment default. Prior to Listing, we expect the balance of our expense paid on behalf of a related party to be fully settled.

The table below sets out the average trade receivable turnover days for the periods indicated.

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
Trade receivables turnover days[(1)]				
Retail[(2)]	6.6	7.1	7.6	7.1
Distribution	39.1	35.5	35.9	34.7
Total	**24.5**	**25.4**	**24.8**	**21.4**

Notes:

(1) Trade receivables turnover days are calculated using the average of the beginning and ending trade receivables balances for the period, divided by revenue for the period, multiplied by the number of days for the relevant period.

(2) Represents trade receivables due from medical insurance authorities.

Our trade receivables turnover days, ranging from 21.4 days to 25.4 days during the Track Record Period. Our trade receivables turnover days for our retail business remain relatively stable from 2012 to the six months ended 30 June 2013. The overall increase in our trade receivables turnover days for our retail business from 6.6 days in 2010 to 7.6 days in 2012 was primarily due to a larger number of our retail customers settling their purchases with medical insurance rather than in cash. Our trade receivables turnover day for our distribution business was 35.9 days in 2012 and 34.7 days in the six months ended 30 June 2013, which was relatively stable. Our trade receivables turnover days for our distribution business remained relatively stable from 2011 to 2012. The decrease in our trade receivables turnover days for our distribution business from 39.1 days in 2010 to 35.5 days in 2011 was primarily due to our improved collection results in 2011.

Inventories

Our inventories primarily comprise (i) prescription and OTC drugs, (ii) medical device, (iii) food and (iv) healthcare and herbal products that we purchase from our suppliers for resale through our retail and distribution networks. We actively monitor our inventory levels based on amounts of product outflow through retail and distribution, and accordingly adjust these levels as needed from our suppliers. Our business model seeks to maintain a low level of inventories but a high turnover rate. During the Track Record Period, we have not made any provisions for impairment loss of our inventories.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, our inventories amounted to RMB80.6 million, RMB177.9 million, RMB249.4 million and RMB270.9 million, respectively. Our inventories increased by 120.8% from as at 31 December 2010 to as at 31 December 2011 and further increased by 40.2% from as at 31 December 2011 to as at 31 December 2012 and by 8.6% from as at 31 December 2012 to as at 30 June 2013, primarily due to our business expansion.

The table below sets out the average inventory turnover days for the periods indicated.

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
Inventory turnover days[(1)]				
Retail	72.0	89.4	91.8	82.2
Distribution	29.3	21.8	18.6	17.6
Total	**45.8**	**42.5**	**43.2**	**43.6**

Note:

(1) Inventory turnover days are calculated using the average of the beginning and ending inventory balances for the period, divided by cost of sales for the period, multiplied by the number of days for the relevant period.

Our inventory turnover days ranged from 42.5 days to 45.8 days during the Track Record Period. The decrease in our inventory turnover days for our retail business from 91.8 days in 2012 to 82.2 days in the six months ended 30 June 2013 was primarily because we adjusted the inventory structure of the acquired businesses and were able to lower their inventory levels. The increase in inventory turnover days for our retail business from 72.0 days in 2010 to 89.4 days in 2011 and further to 91.8 days in 2012 was primarily due to our adjustment of the pre-existing inventory at our newly-acquired pharmacies in 2011 and in 2012 with our preferred inventory, which resulted in a temporary back log of inventory at such newly-acquired pharmacies. The decrease in inventory turnover days for our distribution business from 29.3 days in 2010 to 21.8 days in 2011 and further to 18.6 days in 2012 and 17.6 days in the six months ended 30 June 2013 was primarily due to more streamlined and efficient processing of the purchase orders that we receive from customers, which accelerated our inventory turnover for our distribution business.

As at 30 September 2013, we had subsequently sold RMB258.8 million, or 95.6%, of our inventories as at 30 June 2013.

Trade and Other Payables

The table below sets out a breakdown of our trade and other payables by component as at the dates indicated.

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	(RMB'000)			
Trade payables				
Retail	16,223	32,615	55,108	37,086
Distribution	36,013	53,976	44,096	44,981
	52,236	86,591	99,204	82,067
Other payables				
Shareholder's loan	–	667,913	626,429	645,470
Other taxes	1,244	8,007	5,400	10,391
Salary and welfare payable	5,395	12,515	24,561	35,496
Marketing expenses	9,045	10,066	14,778	12,348
Deposits payable	1,430	1,270	1,140	390
Payable to non-controlling investors	–	5,207	636	636
Due to related parties	123	8,271	14,313	17,831
Consideration payable	–	–	1,041	15,003
Others	550	1,512	2,407	5,047
	17,787	**714,761**	**690,705**	**742,612**
Notes payables	–	–	42,088	8,267
Total trade and other payables	**70,023**	**801,352**	**831,997**	**832,946**

Our trade payables increased by 65.8% from RMB52.2 million as at 31 December 2010 to RMB86.6 million as at 31 December 2011 and further increased by 14.6% to RMB99.2 million as at 31 December 2012, primarily due to our increased inventory procurement in line with the expansion of our business. Our trade payables decreased by 17.3% from RMB99.2 million as at 31 December 2012 to RMB82.1 million as at 30 June 2013, primarily due to a 32.7% decrease in our trade payables for our retail business from RMB55.1 million as at 31 December 2012 to RMB37.1 million as at 30 June 2013, which reflected our settlement of a portion of the trade payables due to our related parties Chengde Yushi and Heilongjiang Baitai.

Other payables primarily comprise a shareholder's loan, other taxes payable, marketing expenses payable to distributors, payables to non-controlling investors and salary and welfare payable. The shareholder's loan is due to Asia Health, our parent company. Asia Health obtained proceeds from DBS Nominees, SEAVI and AMG in 2011 as the Pre-listing Investments and lent such proceeds to us to finance our business expansion through the acquisition and organic expansion of pharmaceutical retail and distribution businesses. Please see *"History* *and Reorganisation – The Pre-listing Investments”* for further details regarding the Pre-listing Investments. Our other payables increased by 7.5% from RMB690.7 million as at 31 December 2012 to RMB742.6 million as at 30 June 2013, primarily due to the increase in the shareholder’s loan from RMB626.4 million to RMB645.5 million during this period. Our other payables decreased by 3.4% from RMB714.8 million as at 31 December 2011 to RMB690.7 million as at 31 December 2012, primarily due to the decrease in the shareholder’s loan from RMB667.9 million to RMB626.4 million during this period as a result of partial repayment of the shareholders’ loan in 2012. Our other payables increased substantially from RMB17.8 million as at 31 December 2010 to RMB714.8 million as at 31 December 2011, primarily due to the shareholder’s loan of RMB667.9 million received in 2011.

The table below sets out a summary of the age of our trade payables as at the dates indicated.

	As at 31 December			As at 30 June
	2010	2011	2012	2013
		(RMB’000)		
Up to 3 months	51,077	84,053	91,430	80,876
4 to 6 months	1,150	6	4,376	1,017
7 to 12 months	9	2,523	3,085	138
1 year to 2 years	–	9	304	36
2 years to 3 years	–	–	9	–
Total trade payables	**52,236**	**86,591**	**99,204**	**82,067**

Trade payables represent outstanding amounts on our purchases of merchandise. Most of our suppliers allow us to pay when we order the next batch of products, which is in line with the industry practice. We typically receive credit terms of 90 days from such suppliers.

The following table sets out the average trade payable turnover days for the periods indicated.

	Year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
Trade payable turnover days(1)				
Retail	28.1	26.5	26.7	19.2
Distribution	29.1	21.2	14.9	12.5
Total	**28.7**	**22.8**	**18.8**	**15.2**

Note:

(1) Trade payable turnover days are calculated using the average of the beginning and ending trade payables balances for the period, divided by cost of sales for the period, multiplied by the number of days for the relevant period.

Our trade payable turnover days ranged from 15.2 days to 28.7 days during the Track Record Period. Our trade payable turnover days for our retail business decreased from 28.1 days in 2010 to 26.5 days in 2011. There is an industry practice for most of our suppliers to demand payment for the previous batch of products when we order the next batch. We ordered supplies of products more frequently in order to meet customer demand as our business expanded, which required us to settle outstanding trade payables more frequently in accordance with such industry practice. Our trade payable turnover days decreased from 2010 to 2011 and from 2012 to the six months ended 30 June 2013 accordingly. Our trade payable turnover days for our retail business remained relatively stable from 2011 to 2012. The decrease in our trade payable turnover days for our distribution business from 29.1 days in 2010 to 21.2 days in 2011 and further to 14.9 days in 2012 and 12.5 days in the six months ended 30 June 2013 was primarily due to the same industry practice and reason stated above.

CAPITAL COMMITMENTS AND EXPENDITURE

Capital Commitments and Operating Lease Commitments

The table below sets out our capital expenditure contracted for at the end of the reporting period but not yet incurred.

	For the year ended 31 December			Six months ended 30 June
	2010	2011	2012	2013
	(RMB'000)			
Capital expenditure in respect of investments in subsidiaries.	–	13,000	–	–

Our capital commitments in respect of investments in subsidiaries in 2011 represent the consideration yet to be settled in relation to acquisition agreements entered into by our wholly owned subsidiary, Hong Kong Health Century. In January 2012, Hong Kong Health Century and a third party completed a transaction to acquire 100% equity interest in Daqing Ci Ji Tang Drug Store Co., Ltd. for a cash consideration of RMB15.0 million and additional RMB2.9 million to increase the share capital of Daqing Ci Ji Tang Drug Store Co., Ltd. As at 31 December 2011, Hong Kong Health Century had prepaid its investment amount of RMB11 million to the third party.

In March 2012, our wholly owned subsidiary, Hong Kong Health Century, completed the acquisition of 100% equity interest in Boli Baikang Drug Store Co., Ltd. for a cash consideration of RMB9.1 million.

The table below sets out our future aggregate minimum lease payments under non-cancellable operating leases as at the dates indicated.

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	(RMB'000)			
Operating lease commitments				
Less than 1 year	8,885	21,787	44,022	48,174
1 to 5 years	11,876	25,854	89,303	70,837
More than 5 years	–	31	208	182
	20,761	**47,672**	**133,533**	**119,193**

Our operating lease commitments represent the leases of various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between three and ten years, and the majority of lease agreements are renewable at the end of the respective lease period at market rate. In 2010, 2011 and 2012 and the six months ended 30 June 2013, our operating lease commitments amounted to RMB20.8 million, RMB47.7 million, RMB133.5 million and RMB119.2 million, respectively.

Planned Capital Expenditure

During the Track Record Period, our principal capital expenditure comprised (i) acquiring subsidiaries and businesses, (ii) opening pharmacies, (iii) purchasing fixed assets and (iv) upgrading our IT system.

We anticipate that our total capital expenditures for 2013 will be approximately RMB212.9 million which primarily relate to business acquisitions. We intend to fund our planned capital expenditures through a combination of the net proceeds from the Global Offering, bank borrowings and cash flow from operating activities.

INDEBTEDNESS

During the Track Record Period, we financed our operations and investments primarily through cash generated from operations and cash received from a shareholders' loan in 2011. As at 30 September 2013, we had an outstanding shareholder's loan in the amount of RMB642.5 million, and we did not have any outstanding bank loans or overdrafts. The balance of the shareholder's loan was fully settled in November 2013 through conversion into equity. Going forward, we may utilise bank borrowings and funds raised from capital markets activities in order to finance our future operations and business growth.

Related-party Transactions/Indebtedness

Procurement from our related parties accounted for 9.1%, 5.5%, 5.3% and 6.9% of our total procurement in 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. In particular, during the Track Record Period, we procured a large portion of our Licensed Products from Chengde Yushi and Heilongjiang Baitai, which were owned by associates of our Chairman, Mr. Jin. We believe that the procurement from our related parties was on an arm's-length basis.

Our total purchases from Chengde Yushi amounted to RMB20.8 million, RMB23.9 million, RMB46.7 million and RMB47.3 million in 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. During the same periods, purchases from Chengde Yushi accounted for 3.4%, 2.2%, 2.5% and 4.5% of our total purchases, respectively, making Chengde Yushi our fourth largest supplier in 2010, our third largest supplier in 2011 and 2012, and our largest supplier in the six months ended 30 June 2013.

Our total purchases from Heilongjiang Baitai amounted to RMB34.9 million, RMB36.6 million, RMB54.2 million and RMB25.1 million in 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. During the same periods, purchases from Heilongjiang Baitai accounted for 5.7%, 3.3%, 2.9% and 2.4% of our total purchases, respectively, making Heilongjiang Baitai our largest supplier in 2010 and 2011, second largest supplier in 2012, and our third largest supplier in the six months ended 30 June 2013.

In 2010, we received interest income of RMB2.4 million of loans that we had provided to Chengde Yushi and Heilongjiang Baitai in 2009 of RMB18.0 million and RMB15.0 million, respectively, and received full repayment. The loans were provided to help them obtain their GMP certifications, and each loan was unsecured and carried 10% interest. For further details of our relationship with Chengde Yushi and Heilongjiang Baitai, please see *"Connected Transactions"*.

As a result of our transactions with our related parties Chengde Yushi and Heilongjiang Baitai and our shareholders' loan, we had outstanding amounts payable to related parties during the Track Record Period. The table below sets out our loan from our shareholders along with trade and other payables owed to related parties as at the dates indicated.

	As at 31 December			As at 30 June
	2010	2011	2012	2013
		(RMB'000)		
Trade payables				
To Chengde Yushi	137	768	15,898	1,763
To Heilongjiang Baitai	1,844	640	2,064	111
Other payables	123	676,184	640,742	663,301
	2,104	**677,592**	**658,704**	**665,175**

Our trade payables to Chengde Yushi and Heilongjiang Baitai increased substantially from RMB0.8 million as at 31 December 2011 to RMB15.9 million as at 31 December 2012, primarily due to the increase in purchases from Chengde Yushi and Heilongjiang Baitai, and decreased substantially to RMB1.8 million as at 30 June 2013, primarily due to an increase in our purchases from these two companies, which required that we settle outstanding trade payables prior to new purchases.

Our other payables owed to related parties mainly consist of a shareholders' loan received in 2011, which was primarily used to finance our business acquisitions and expand our business. The shareholders' loan and trade payables owed to related parties are interest-free, unsecured and repayable on demand. As at the Latest Practicable Date, the balance of the shareholder's loan had been fully settled through conversion into equity. Prior to the Listing, we expect the balance of our other payables owed to related parties to be fully settled.

CONTINGENT LIABILITIES

Other than as disclosed above and normal trade payables, as at 30 June 2013, we did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases, liabilities under acceptance credits or guarantees or other material contingent liabilities.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in our financial and trading position since 30 June 2013 (being the date to which our latest consolidated audited financial results were prepared) up to the date of this prospectus.

DISCLOSURE UNDER RULE 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirmed that as of the Latest Practicable Date, there was no circumstance which would give rise to a disclosure requirement under Rule 13.13 to 13.19 of the Hong Kong Listing Rules.

LISTING EXPENSES

The total amount of listing expenses and commissions, together with the SFC transaction levy and Stock Exchange trading fee that will be borne by us in connection with the Global Offering, is estimated to be approximately RMB53.2 million (based on the mid-point of our indicative price range for the Global Offering), of which approximately RMB36.9 million is expected to be capitalised after the listing. The remaining approximately RMB16.3 million in fees and expenses were charged to our income statement.

FINANCIAL RATIOS

The table below sets out, as at the dates or for the periods indicated, our key financial ratios.

	As at or for the year ended 31 December			As at or for the six months ended 30 June
	2010	**2011**	**2012**	**2013**
Current ratio(1)	321.7%	133.1%	127.4%	128.8%
Quick ratio(2)	223.1%	111.6%	98.5%	97.4%
Gearing ratio(3)	N/A	N/A	N/A	N/A
Return on equity(4)	65.5%	49.7%	39.0%	21.9%(7)
Return on total assets(5)	45.6%	15.3%	15.0%	9.9%(7)
Net profit margin(6)	14.3%	12.8%	9.8%	11.3%

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities.

(2) Quick ratio is calculated by dividing current assets (net of inventories) by current liabilities.

(3) Gearing ratio is calculated by dividing net debt by total equity. Net debt is calculated by subtracting bank balances and cash from total debt.

(4) Return on equity is calculated by dividing net profit attributable to owners of the Company by equity attributable to owners of the Company.

(5) Return on total assets is calculated by dividing net profit by total assets.

(6) Net profit margin is calculated by dividing net profit by revenue.

(7) The calculation for the return for the six months ended 30 June 2013 has not been annualised, and is therefore not comparable to the returns in 2010, 2011 and 2012.

Current ratio

Our current ratio was 321.7%, 133.1%, 127.4% and 128.8% as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. The decrease from as at 31 December 2010 to as at 31 December 2011 was primarily due to a shareholder's loan of RMB667.9 million in 2011. The decrease from as at 31 December 2011 to as at 31 December 2012 was primarily due to the decrease in our cash during this period, which was mainly used to fund our business acquisitions. Our current ratio remained relatively stable from as at 31 December 2012 to as at 30 June 2013.

Quick ratio

Our quick ratio was 223.1%, 111.6%, 98.5% and 97.4% as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively. The decrease from as at 31 December 2010 to as at 31 December 2011 was primarily due to a shareholder's loan of RMB667.9 million in 2011. The decrease from as at 31 December 2011 to as at 31 December 2012 was primarily due to the decrease in our cash during this period, which was mainly used to fund our business acquisitions. Our quick ratio remained relatively stable from as at 31 December 2012 to as at 30 June 2013.

Gearing ratio

During the Track Record Period, we did not have any bank borrowings or other borrowings. As a result, the gearing ratio is not applicable to us for the years indicated. For presentation purposes, we exclude our shareholder's loan received in 2011 as a borrowing because prior to Listing, we expect the balance to be fully settled through conversion into equity. If our shareholder's loan were included in our net debt, our gearing ratio as at 31 December 2012 and 30 June 2013 would have been 27.1% and 6.8%, respectively. We would not have recorded net debt for 2011 as our bank balances and cash exceeded our total debt.

Return on equity

Our return on equity was 65.5%, 49.7% and 39.0% in 2010, 2011 and 2012, respectively. The overall decrease from 2010 to 2012 was primarily due to the effect of the accumulation of our retained earnings each year as we have not distributed dividends frequently. Our return on equity was 21.9% in the six months ended 30 June 2013.

Return on total assets

Our return on assets was 45.6%, 12.8% and 9.8% in 2010, 2011 and 2012, respectively. The decrease from 2010 to 2011 was primarily due to the substantial increase in our liabilities as a result of a shareholders' loan of RMB667.9 million in 2011. Our return on total assets remained relatively stable for 2012 compared to 2011. Our return on total assets was 11.3% in the six months ended 30 June 2013.

Net profit margin

Our net profit margin was 14.3%, 12.8%, 9.8%, 7.7% and 11.3% in 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. The overall decrease from 2010 to 2012 was primarily due to our rapid growth through acquiring suitable businesses, which require time in order to be effectively integrated into our existing operations and to maximise their profitability. The increase from the six months ended 30 June 2012 to the six months ended 30 June 2013 was primarily due to (i) the successful integration of the businesses that we opened or acquired in 2011 and 2012 and (ii) the adjustment on our product mix to increase our sales on High-gross-margin Products.

RECENT DEVELOPMENTS

We continued to experience stable growth during the nine months ended 30 September 2013. Our revenue increased by 47.0% to RMB2,341.3 million for the nine months ended 30 September 2013 compared to RMB1,529.5 million for the nine months ended 30 September 2012. Our gross profit increased by 71.6% to RMB629.8 million from RMB367.1 million during the same periods, respectively. Revenue and gross profit for our pharmaceutical retail segment increased by 83.1% and 101.0%, respectively, for the nine months ended 30 September 2013 compared with the nine months ended 30 September 2012. Revenue and gross profit for our pharmaceutical distribution segment increased by 25.0% and 31.4%, respectively, for the same periods. Please see note 31 to the Accountant's Report set out in Appendix I to this prospectus for further details of certain subsequent events following the Track Record Period.

Assignment and Transfer of Non-trade Balances

In November 2013, Asia Health, through entering into seven assignment and transfer agreements, transferred non-trade balances in an aggregate amount of approximately RMB10.9 million to us.

OFF-BALANCE SHEET ARRANGEMENTS

As at 30 June 2013, being the date of our most recent financial statements, we did not have any off-balance sheet arrangements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk that changes in market prices such as currency risk, interest risk, liquidity risk and commodity price risk will affect our results of operation. The objective of market risk management is to manage and control market risk exposures within acceptable limits. There have been no changes in the Track Record Period to our objectives, policies or processes to manage market risks.

Currency Risk

We mainly operate in the PRC, with most of our transactions denominated and settled in Renminbi. Our currency risk arises from certain bank deposits, financial assets at fair value through profit and loss and amounts due on a loan received from shareholders that are denominated in US dollars and Hong Kong dollars. As at 30 June 2013, we had RMB592.9 million in cash and bank balances, of which the equivalent of RMB128.2 million was denominated in US dollars and RMB1.7 million was denominated in Hong Kong dollars. We do not currently hedge our foreign exchange exposure.

We consider our exposure to foreign currency exchange rate risk to be insignificant. In the six months ended 30 June 2013, had there been a 5% increase or decrease in the exchange rate of Renminbi against the US dollar or Hong Kong dollar, our before-tax profit in the six months ended 30 June 2013 would have increased or decreased by approximately RMB1.6 million. In 2011, had there been a 5% increase or decrease in the exchange rate of Renminbi against the US dollar or Hong Kong dollar, our before-tax profit for the year ended in 2011 would have increased or decreased by approximately RMB3.5 million. In 2010, had there been a 5% increase or decrease in the exchange rate of Renminbi against the US dollar or Hong Kong dollar, our before-tax profit for the year ended in 2010 would have decreased or increased by approximately RMB4,216.

Following the completion of the Global Offering, we expect to receive significant cash and cash equivalents denominated in currencies other than Renminbi. Such cash and cash equivalents are exposed to fluctuations in the value of Renminbi against the currencies in which these cash and cash equivalents are denominated.

Credit Risk

We have no significant concentrations of credit risk. We implement policies to ensure that sales of products on credit are made to customers with appropriate credit history. Individual credit limits are set based on internal assessment, taking into account the customer's financial position, past experience and other factors. Our maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets stated in our consolidated balance sheets.

Concentrated credit risk related to trade receivables is limited due to the large number of customers in our customer portfolio and their geographic and business diversification. In the six months ended 30 June 2013, our top 15 customers and single largest customer represented 21.0% and 7.4% of our trade and other receivables, respectively.

No credit limits were exceeded during the Track Record Period, and we do not expect any losses from non-performance by these counterparties.

We deposit our cash in financial institutions with high credit quality. We also have policies that limit the amount of credit exposure to any financial institution. As at 31 December 2010, 2011 and 2012, the majority of our bank deposits are held in state-owned and joint-stock commercial banks, which offer lower credit risk for our deposits.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. We maintain a level of liquidity adequate to finance our operations and to mitigate the effects of fluctuations in cash flows. Our policy is to regularly monitor our liquidity requirements and compliance with loan covenants in order to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet liquidity requirements in the short and longer term. We have historically met our working capital requirements primarily from cash generated from operations.

Commodity Price Risk

As at 31 December 2012, we owned paper gold held for trading classified as financial assets at fair value through profit or loss in the amount of RMB97.0 million. The gold market is influenced by global as well as regional supply and demand conditions. By February 2013, we had sold all of our holdings in paper gold and did not own any financial assets at fair value through profit or loss as at 30 June 2013. Currently and for the foreseeable future, we do not intend to invest in any commodities or enter into any derivative contracts. Going forward, our investment strategy with respect to unused funds will focus on wealth management-type products with fixed rates of return.

DIVIDEND POLICY

The Board may declare dividends after taking into account our operations, earnings, financial position, liquidity requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to the Memorandum and Articles of Association and the Cayman Companies Law. In addition, the Directors may from time to time pay such interim dividends as appear to the Board to be justified by our profits, or special dividends of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Our future declaration of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

In 2010, dividends in the amount of RMB106.4 million were distributed by Jintian Management and its subsidiaries to the controlling shareholder of the respective companies at the time.

In November 2013, our Group declared dividends to be distributed prior to Listing. Such dividends amounted to RMB85.8 million, representing 70% of the net profit from 1 January 2010 to 31 December 2010 of the entities under Jintian Management, for which the recipients are the ultimate shareholders of Jintian Management during the year 2010. The dividends were paid in full on 26 November 2013.

We have no further plans to distribute the retained earnings of our PRC subsidiaries in the foreseeable future. As a result, no provision for withholding tax had been made. Please see *"Appendix I – Accountant's Report – Note 10"* for further details.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma data relating to our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on our net tangible assets as at 30 June 2013 as if the Global Offering had taken place on 30 June 2013.

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 our consolidated net tangible assets attributable to the owners of the Company as at 30 June 2013 or as at any subsequent dates, including following the Global Offering.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2013[(1)]	Estimated net proceeds from the Global Offering[(2)]	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company	Unaudited pro forma adjusted net tangible assets per Share[(3)]	
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB)	(HK$)
Based on an Offer Price of HK$2.91 per Offer Share . . .	240,595	872,109	1,112,704	0.5564	0.7035
Based on an Offer Price of HK$4.23 per Offer Share . . .	240,595	1,275,512	1,516,107	0.7581	0.9586

Notes:

(1) The unadjusted audited consolidated net tangible assets attributable to the equity holders of our Company as at 30 June 2013 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to the equity holders of our Company of RMB688,313,000 with adjustments for intangible assets of RMB447,718,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$2.91 per Share and HK$4.23 per Share after deduction of the underwriting commission and other related expenses payable by our Company.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note 2 above and on the basis that 1,999,999,999 Shares to be in issue immediately upon the completion of the Global Offering and the Reorganisation of Offshore Holding Structure but takes no account of any shares which may be allotted and issued upon any options granted or to be granted under the Share Option Schemes, any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandate to issue Shares or to repurchase Shares as described in the section headed "Statutory and General Information".

(4) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2013. In particular, the unaudited pro forma adjusted net tangible assets of the Group do not take into account the dividend of approximately RMB85.8 million declared by the Group in November 2013, which was paid in full on 26 November 2013. The unaudited pro forma net tangible assets per share would have been HK$0.6493 and HK$0.9043 per share based on the Offer Price of HK$2.91 and HK$4.23 respectively, after taking into account the declaration of such dividend.

The unaudited pro forma net adjusted tangible assets of the Group do not take into account the transfer of the non-trade balances with related parties of approximately RMB10,936,000 from Asia Health to the Company with nil consideration in November 2013. The unaudited pro forma net tangible assets per share would have been HK$0.7104 and HK$0.9655 per share based on the Offer Price of HK$2.91 and HK$4.23, respectively, after taking into account such transfer, Global Offering and the Reorganisation of Offshore Holding Structure.

The unaudited pro forma net adjusted tangible assets of the Group do not take into account the settlement of the shareholder's loan of approximately RMB641,023,000 in November 2013 and a share of the Company that was issued and allotted to Asia Health. The unaudited pro forma net tangible assets per share would have been HK$1.1088 and HK$1.3638 per share based on the Offer Price of HK$2.91 and HK$4.23, respectively, after taking into account such settlement, Global Offering and the Reorganisation of Offshore Holding Structure.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.7908.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2013

Certain forecast data of the Company for the year ending 31 December 2013 are set forth below. We prepared these forecast data on the bases and assumptions set out in *"Appendix III – Profit Forecast"* to this prospectus and after taking into account the Global Offering. Our assumptions include that there will be no material changes in laws and regulations relating to our products, such as price control policies. In addition, our profit forecast was partially based on our understanding of future trends in the PRC pharmaceutical industry. However, demand for our products and services may fluctuate in the future.

Unaudited forecast consolidated profit attributable to equity holders of the Company	Not less than RMB325 million (HK$411 million)(1)(3)
Unaudited pro forma forecast earnings per Share based on forecast consolidated profit attributable to equity holders of the Company	Not less than RMB0.152 (HK$0.193)(2)(3)

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2013 has been prepared and summarised in "*Appendix III – Profit Forecast*" to this Prospectus. Although not all of the assumptions are of equal significance to our profit forecast, if one or more of these assumptions turned out to be not true, our business may be materially and adversely affected and our actual profit in 2013 may be materially less than our forecast.

(2) The unaudited pro forma forecast earnings per Share for the year ending 31 December 2013, on a fully diluted basis, is calculated by dividing the unaudited forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2013 by 1,999,999,999 Shares assumed to be issued and outstanding during the entire year, adjusted as if the Global Offering and the Reorganisation of Offshore Holding Structure had occurred on 1 January 2013, but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2013 and the unaudited pro forma forecast earnings per Share for the year ending 31 December 2013, on a fully diluted basis, are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.7908. No representation is made that the Renminbi amount has been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.