



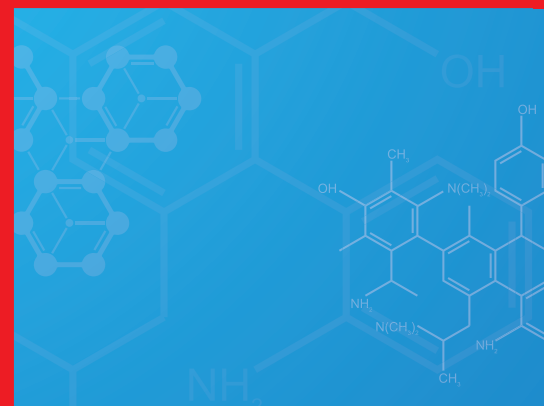
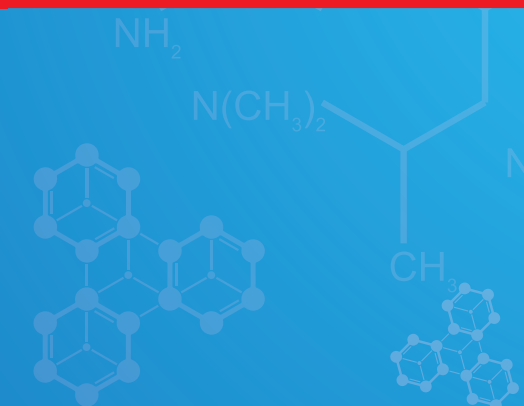
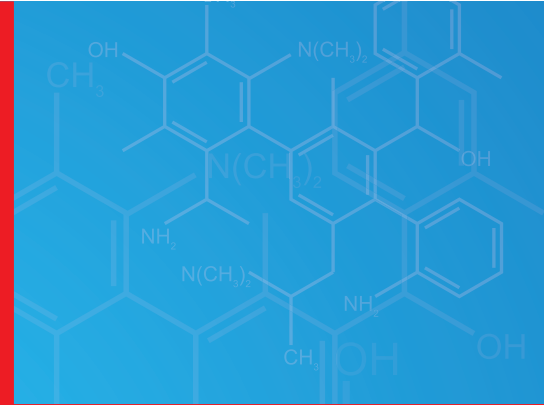
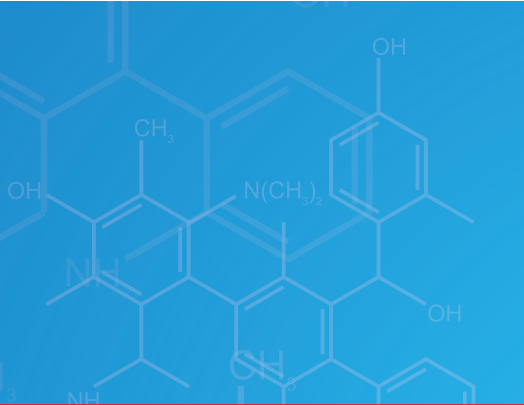
百信集团
PASHUN GROUP

Pa Shun Pharmaceutical International Holdings Limited

百信藥業國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 574



GLOBAL OFFERING

Sole Sponsor



China Everbright Capital Limited

Sole Global Coordinator,
Sole Bookrunner and Sole Lead Manager



China Everbright Securities (HK) Limited

IMPORTANT

If you are in any doubt about this prospectus, you should obtain independent professional advice.



百信集團
PASHUN GROUP

Pa Shun Pharmaceutical International Holdings Limited 百信藥業國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	250,000,000 Shares (subject to adjustment and the Over-allotment Option)
Number of International Placing Shares	:	225,000,000 Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	:	25,000,000 Shares (subject to adjustment)
Maximum Offer Price	:	HK\$1.40 per Hong Kong Offer Share (payable in full on application in Hong Kong dollars, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% and subject to refund)
Nominal value	:	HK\$0.001 per Share
Stock code	:	574

Sole Sponsor



China Everbright Capital Limited

Sole Global Coordinator,

Sole Bookrunner and Sole Lead Manager



China Everbright Securities (HK) Limited

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

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

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on or before Friday, June 12, 2015 or such later date as may be agreed by the Sole Global Coordinator and us, but in any event not later than Monday, June 15, 2015. The Offer Price will not be more than HK\$1.40 per Offer Share and is currently expected to be not less than HK\$1.00 per Offer Share unless otherwise announced. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$1.40 for each Offer Share together with a brokerage of 1%, a SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$1.40.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), with our consent, may reduce the number of Offer Shares being offered pursuant to the Global Offering and/or the indicative Offer Price range stated in this prospectus (which is HK\$1.00 to HK\$1.40 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such case, notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offer. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us on or before Monday, June 15, 2015, the Global Offering will not proceed and will lapse.

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

Pursuant to the certain provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Sole Global Coordinator (for itself and on behalf of the Underwriters) has the right in certain circumstances, subject to the sole opinion of the Sole Global Coordinator, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 am (Hong Kong time) on the day on which dealings in the Shares first commence on The Stock Exchange of Hong Kong Limited. Further details of the terms of such provisions are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act.

June 9, 2015

EXPECTED TIMETABLE

Our Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable¹ of the Hong Kong Public Offer.

Latest time to complete electronic applications under HK eIPO White Form service through the designated website at www.hkeipo.hk ⁴	11:30 a.m. on Friday, June 12, 2015
Application lists of the Hong Kong Public Offer open ²	11:45 a.m. on Friday, June 12, 2015
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC ³	12:00 noon on Friday, June 12, 2015
Latest time to complete payment for HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, June 12, 2015
Application lists of the Hong Kong Public Offer close	12:00 noon on Friday, June 12, 2015
Expected Price Determination Date ⁵	Friday, June 12, 2015
Announcement of the Offer Price, the indication of the level of interest in the International Placing, the level of applications in the Hong Kong Public Offer and the basis of allocation under the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange of www.hkexnews.hk and our Company at www.pashun.com.cn on or before	Thursday, June 18, 2015
Results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see "How to apply for Hong Kong Offer Shares")	Thursday, June 18, 2015
Results of allocations in the Hong Kong Public Offer will be available at www.tricor.com.hk/ipo/result with a "search by ID" function	Thursday, June 18, 2015
Dispatch/collection of share certificates in respect of wholly or partially successful applications expected on or before ^{6&7}	Thursday, June 18, 2015
Dispatch of HK eIPO White Form e-Auto Refund payment instructions/refund cheques in respect of wholly successful (in the event that the final Offer Price is less than initial price per Hong Kong Offer Share payable on application) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer on or before ⁸	Thursday, June 18, 2015
Dealings in Shares on the Stock Exchange to commence on	Friday, June 19, 2015

EXPECTED TIMETABLE

Notes:

- (1) All times and dates refer to Hong Kong local time and date. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, June 12, 2015, the application lists will not open and close on that day. Further information is set out in the paragraph headed “III. Applying for Hong Kong Offer Shares — Effect of bad weather on the opening of the application lists” under the section headed “How to apply for Hong Kong Offer Shares”. If the application lists do not open and close on Friday, June 12, 2015, the dates mentioned in this section headed “Expected timetable” may be affected. A press announcement will be made by us in such event.
- (3) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the paragraph headed “Applying by giving **electronic application instructions** to HKSCC” under the section headed “How to apply for Hong Kong Offer Shares”.
- (4) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) We expect to determine the Offer Price by agreement with the Sole Global Coordinator (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, June 12, 2015 and, in any event, not later than Monday, June 15, 2015. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us by Monday, June 15, 2015, the Hong Kong Public Offer and the International Placing will not proceed and will lapse.
- (6) **Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates become valid certificates of title do so entirely at their own risk.** Refund cheques will be issued in respect of wholly or partially unsuccessful applications, and also in respect of successful applications if the Offer Price is less than the price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.
- (7) Applicants who apply for 1,000,000 Hong Kong Offer Shares or more may collect share certificates (if applicable) and/or refund cheques (if applicable) in person and may do so from our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, June 18, 2015 or any other date as notified by us in the newspapers as the date of dispatch of share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who opt for personal collection must not authorize any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by sending their authorised representatives each bearing a letter of authorization from his corporation stamped with the corporation’s chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar, Tricor Investor Services Limited. Applicants who have applied on YELLOW Application Forms may collect their refund cheques (if applicable), in person but may not collect their share certificates, which will be deposited into CCASS for credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. Uncollected share certificates and refund cheques will be dispatched by ordinary post to the addresses specified in the relevant applications at the applicant’s own risk. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.
- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Prices is less than the initial prices per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheques, if any, such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

Further information in relation to the Hong Kong Public Offer is set out in the section headed “How to Apply for Hong Kong Offer Shares”.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Pa Shun Pharmaceutical International Holdings Limited solely in connection with the Hong Kong Public Offer and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, any of the Underwriters, any of their respective directors, or any other person involved in the Global Offering.

	<i>Page</i>
Expected Timetable	i
Summary	1
Definitions	12
Glossary	27
Forward-looking Statements	29
Waivers from Strict Compliance with the Listing Rules	30
Risk Factors	32
Information about this Prospectus and the Global Offering	60
Directors and Parties Involved in the Global Offering	63
Corporate Information	66
Industry Overview	68
Regulations	79
History and Corporate Structure	99
Business	125

CONTENTS

	<i>Page</i>
Relationship with Controlling Shareholders	211
Directors and Senior Management	218
Share Capital	231
Substantial Shareholders	234
Financial Information	235
Future Plans and Use of Proceeds	303
Underwriting	305
Structure of the Global Offering	313
How to Apply for Hong Kong Offer Shares	321
 <u>Appendices</u>	
Appendix I — Accountants' Report	I-1
Appendix II — Unaudited Pro Forma Financial Information	II-1
Appendix III — Summary of the Constitution of our Company and Cayman Islands Companies Law	III-1
Appendix IV — Statutory and General Information	IV-1
Appendix V — Documents Delivered to the Registrar of Companies and Available for Inspection	V-1

SUMMARY

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

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

OVERVIEW

We are an integrated pharmaceutical company based in southwestern China. Our vertically integrated business model encompasses major stages of the pharmaceutical industry value chain and enables us to benefit from synergies across business segments. We believe our well-recognized brand and market leadership will continue to enhance our ability to grow our business, expand our customer base and increase our profitability.

We primarily operate in the following three business segments in China:

- *Pharmaceutical distribution.* We source pharmaceutical and healthcare products from (i) commercial suppliers, which primarily consist of pharmaceutical trading companies; and (ii) pharmaceutical manufacturers. We sell the products on a wholesale basis primarily to (i) pharmaceutical wholesalers; (ii) franchise retail pharmacy stores under our “Pa Shun” brand that are owned and operated by our franchisees; and (iii) hospitals and other medical institutions in rural areas in the Chengdu region in Sichuan province through a government-organized tender process for rural pharmaceutical distribution. We ranked third in China in terms of the number of franchise retail pharmacy stores under our “Pa Shun” brand as of December 31, 2013, according to NFS, an independent market research institution. We were one of the first companies to be engaged in rural pharmaceutical distribution in Chengdu, Sichuan province, and we ranked first in rural pharmaceutical distribution in the Chengdu region in terms of total sales for 2013, according to NFS.
- *Self-operated retail pharmacies.* As of December 31, 2014, we had a total of 27 self-operated retail pharmacy stores under our “Pa Shun” brand in operation located in Sichuan province, Hebei province and Hubei province. In addition, we had seven self-operated retail pharmacy stores that were in the process of relocating. As of the Latest Practicable Date, we had re-opened two stores following their relocation, entered into lease agreements for two stores and were in the process of selecting sites for the other three stores.
- *Pharmaceutical manufacturing.* We manufacture and sell six pharmaceutical products. Our self-manufactured Zhenghonghua embrocation had over 40% of the market share in the Zhenghonghua embrocation product category in China in 2011, 2012 and 2013 as measured by retail sales revenue, representing the largest market share in each year, according to NFS. Zhenghonghua embrocation in turn accounted for 0.06%, 0.05% and 0.05% of the total pharmaceutical product sales in China for 2011, 2012 and 2013, respectively, as measured by retail sales revenue, according to NFS.

SUMMARY

OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths: (i) as an established distributor of pharmaceutical and healthcare products based in southwestern China, we are well-positioned to benefit from market growth and industry consolidation opportunities; (ii) we have one of the longest operating history and one of the largest distribution network in rural pharmaceutical distribution in Chengdu, Sichuan province; (iii) our “Pa Shun” brand is widely recognized in the pharmaceutical industry in China, which helps us to attract franchisees and end customers; (iv) we have the largest market share in the Zhenghonghua embrocation product category in China; (v) our large product portfolio and strong relationships with a broad network of suppliers allow us to meet diversified customer needs; and (vi) we have a dedicated, experienced and stable management team.

OUR BUSINESS STRATEGIES

We aim to become a leading pharmaceutical company in central and southwestern China. We intend to achieve our goal by pursuing the following principal strategies: (i) further promote our “Pa Shun” brand; (ii) continue to expand our distribution network and develop our rural pharmaceutical distribution business; (iii) further broaden our product offerings and enhance our product mix; (iv) continue to expand our self-operated retail pharmacy store operations; and (v) pursue acquisitions and strategic alliances.

OUR CUSTOMERS, SALES AND SUPPLIERS

Customers in our pharmaceutical distribution segment primarily include pharmaceutical wholesalers, franchise retail pharmacy stores operating under our “Pa Shun” brand, and hospitals and other medical institutions in rural areas. We have a seller/buyer relationship with our pharmaceutical wholesaler customers. We do not require our pharmaceutical wholesaler customers to follow any sales or pricing policies, nor do we have any other type of control over them. We sell products to franchise retail pharmacy stores pursuant to franchise agreements with our franchisees. We use “cost-plus” pricing for products we sell to pharmaceutical wholesaler customers and franchise retail pharmacy stores. For rural pharmaceutical distribution, we are required to undergo a government-organized tender process to bid for rights to distribute pharmaceutical products and medical devices to designated rural areas. The hospitals and other medical institutions in those rural areas provide us with purchase orders, and sales prices for the products are determined by the relevant government authorities. Customers in our self-operated retail pharmacies segment primarily consist of individual consumers residing in the geographical areas our self-operated retail pharmacy stores are located. Through self-operated retail pharmacy stores, we sell pharmaceutical and healthcare products, medical devices, cosmetic products and daily necessities to end consumers on a “cost-plus” basis. Customers in our pharmaceutical manufacturing segment primarily consist of distributors, who purchase our self-manufactured products at a discount from suggested retail prices and then resell the products to end customers or sub-distributors. Our distributors are typically authorized to sell our products within designated geographic areas, and are required to follow our sales and pricing policies. We price our self-manufactured products based on cost of production, market demand, pricing of competitors’ products and our business development strategies.

SUMMARY

For our pharmaceutical distribution segment, we source pharmaceutical and healthcare products and medical devices from (i) commercial suppliers, which primarily include pharmaceutical trading companies; and (ii) pharmaceutical manufacturers. For our self-operated retail pharmacies segment, we source (i) pharmaceutical and healthcare products and medical devices from commercial suppliers and pharmaceutical manufacturers; and (ii) cosmetic products and daily necessities from V-drug Chengdu, a subsidiary of V-drug, our pre-IPO investor and business partner. We establish and operate our Japanese-style cosmeceutical stores with V-drug and its parent company, Chubu Yakuhin Co., Ltd. For our pharmaceutical manufacturing segment, we source raw materials from a wide range of suppliers in China. Our raw materials are widely available. We compare price quotes from suppliers to seek favorable procurement prices. We generally maintain one to two months' supply to mitigate against short-term raw material price fluctuation risks.

We generally do not have long-term binding agreements with our suppliers. Our suppliers typically grant credit periods to us ranging from 30 to 90 days. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material dispute with any of our suppliers, nor did we experience any material difficulty procuring products or raw materials.

OUR PRODUCTION FACILITIES

We manufacture six pharmaceutical products at our production facilities located in Chengdu, Sichuan province. We have obtained all relevant licenses, permits and certificates for our pharmaceutical manufacturing operation in all material respects, including the GMP certification.

OUR CONTROLLING SHAREHOLDERS AND PRE-IPO INVESTORS

Immediately after the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option and the option under the Share Option Scheme are not exercised), our Controlling Shareholders, being Mr. Chen and Praise Treasure, will own approximately 48.80% of the total issued share capital of our Company. In February 2012, we completed the subscriptions of our Series A Shares and Series B Shares by our pre-IPO investors, which are Independent Third Parties. The Series A Shares and Series B Shares shall be automatically converted into our Shares immediately prior to the Listing. Following conversion in full of the Preferred Shares and the completion of the Global Offering (assuming the Over-allotment Option and the option under the Share Option Scheme are not exercised), our pre-IPO investors together will hold approximately 26.20% of our total issued Shares.

SUMMARY

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

Selected Consolidated Statements of Profit or Loss Information

The following table sets forth our selected consolidated statements of profit or loss information for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	712,111	794,349	847,193
Cost of sales	<u>(582,575)</u>	<u>(643,924)</u>	<u>(665,126)</u>
Gross profit	129,536	150,425	182,067
Other revenue	10,379	14,612	20,672
Other net income/(loss)	354	33	(710)
Selling and distribution expenses	(33,380)	(35,990)	(36,468)
General and administrative expenses	<u>(25,137)</u>	<u>(25,779)</u>	<u>(46,729)</u>
Profit from operations	81,752	103,301	118,832
Finance costs	(3,453)	(5,855)	(9,013)
Impairment on goodwill	—	—	(4,714)
Change in fair value on convertible redeemable preferred shares	<u>(51,881)</u>	<u>(16,134)</u>	<u>(33,236)</u>
Profit before taxation	26,418	81,312	71,869
Income tax	<u>(17,110)</u>	<u>(18,243)</u>	<u>(25,740)</u>
Profit for the year	<u>9,308</u>	<u>63,069</u>	<u>46,129</u>
Attributable to:			
Equity shareholders of the Company	9,409	63,070	45,944
Non-controlling interests	<u>(101)</u>	<u>(1)</u>	<u>185</u>
Earnings per share			
Basic ⁽¹⁾	<u>0.013</u>	<u>0.090</u>	<u>0.065</u>
Diluted ⁽¹⁾	<u>0.013</u>	<u>0.079</u>	<u>0.065</u>
Adjusted profit for the year ⁽²⁾	<u>61,189</u>	<u>79,203</u>	<u>79,365</u>

SUMMARY

Note:

- (1) The basic and diluted earnings per share as presented above have not taken into account the Capitalization Issue because the Capitalization Issue had not become effective as of the date of this prospectus.
- (2) Adjusted profit for the year is derived by excluding the change in fair value on convertible redeemable preferred shares from profit for the year. Adjusted profit for the year is not a calculation based on HKFRS. We have presented adjusted profit for the year in this prospectus as we believe that adjusted profit for the year is a useful supplement to income statement data because it enables us to measure our profitability without taking into account the non-cash change in fair value on convertible redeemable preferred shares which will be converted into our ordinary shares upon the Listing. For details, please see “Financial Information — Results of Operations.”

Selected Consolidated Statements of Financial Position Information

The following table sets forth our selected consolidated statements of financial position information as of the dates indicated:

	As of December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	72,998	154,420	138,811
Current assets	432,646	532,769	575,181
Current liabilities	370,055	484,500	468,601
Net current assets	62,591	48,269	106,580
Total assets less current liabilities	135,589	202,689	245,391
NET ASSETS	72,615	141,080	181,280

Selected Cash Flow Statement Information

The following table sets forth our selected cash flow statement information for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (used in)/generated from operating activities	(42,242)	92,225	48,664
Net cash used in investing activities	(2,698)	(105,599)	(16,294)
Net cash (used in)/generated from financing activities	34,067	39,935	(30,933)
Net (decrease)/increase in cash and cash equivalents	(10,873)	26,561	1,437
Cash and cash equivalents at the beginning of the year	50,120	39,227	65,375
Effect of changes in foreign exchange rate	(20)	(413)	247
Cash and cash equivalents at the end of the year	39,227	65,375	67,059

SUMMARY

KEY FINANCIAL RATIOS

	As of/for the year ended December 31,		
	2012	2013	2014
Gross margin	18.2%	18.9%	21.5%
Net profit margin	1.3%	7.9%	5.4%
Current ratio	1.2	1.1	1.2
Quick ratio	1.0	1.0	1.1
Return on equity	13.1%	45.0%	25.5%
Return on total assets	1.8%	9.2%	6.5%
Gearing ratio	33.1%	53.2%	27.6%
Debt to equity ratio	net cash	6.8%	net cash
Interest coverage ratio	8.7	14.9	9.0

The following table sets out the external revenue generated from outside customers of each business segment and the related gross profit and gross profit margin for the periods indicated:

	Year ended December 31,								
	2012			2013			2014		
	External revenue	Gross profit	Gross margin	External revenue	Gross profit	Gross margin	External revenue	Gross profit	Gross margin
	<i>(RMB'000, except percentages)</i>								
Segments:									
Pharmaceutical distribution	624,525	74,147	11.9%	695,860	89,755	12.9%	707,053	98,595	13.9%
Self-operated retail									
pharmacies	7,831	3,092	39.5%	17,626	5,621	31.9%	29,352	9,827	33.5%
Pharmaceutical									
manufacturing	79,755	52,297	65.6%	80,863	55,049	68.1%	110,788	73,645	66.5%
Total:	712,111	129,536		794,349	150,425		847,193	182,067	

SUMMARY

The following table sets out our segment revenue, which includes both revenue generated from outside customers and from inter-segment sales to our other business segments, and gross profit and gross margin calculated based on such segment revenue for the periods indicated:

	Year ended December 31,								
	2012			2013			2014		
	Segment revenue	Segment gross profit	Segment gross margin	Segment revenue	Segment gross profit	Segment gross margin	Segment revenue	Segment gross profit	Segment gross margin
	<i>(RMB'000, except percentages)</i>								
Segments:									
Pharmaceutical distribution	630,165	61,617	9.8%	703,245	79,918	11.4%	713,577	90,260	12.6%
Self-operated retail									
pharmacies	7,831	2,764	35.3%	17,626	5,415	30.7%	29,352	9,504	32.4%
Pharmaceutical									
manufacturing	110,036	68,717	62.4%	105,374	66,485	63.1%	132,924	82,624	62.2%
Total:	748,032	133,098		826,245	151,818		875,853	182,388	

The following table sets forth a breakdown of external revenue of our pharmaceutical distribution segment by customer type for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	Amount	% of external revenue	Amount	% of external revenue	Amount	% of external revenue
	<i>(RMB'000, except percentages)</i>					
Pharmaceutical wholesalers	419,207	67.1	480,384	69.0	446,018	63.1
Franchise retail pharmacy stores	96,499	15.5	148,152	21.3	173,189	24.5
Rural hospitals and other						
medical institutions	108,819	17.4	67,324	9.7	87,846	12.4
Total external revenue of pharmaceutical distribution	624,525	100.0	695,860	100.0	707,053	100.0

SUMMARY

The increase in segment revenue of our pharmaceutical distribution segment from 2012 to 2013 was due to growth in our sales volume to pharmaceutical wholesalers and franchise retail pharmacy stores, as partially offset by a decrease in our sales to rural hospitals and other medical institutions. The increase in segment revenue from 2013 to 2014 was primarily due to increases in sales to franchise retail pharmacy stores and rural hospitals and other medical institutions, as partially offset by a decrease in sales to pharmaceutical wholesalers. See “Financial Information — Components of Our Statements of Profit or Loss — Turnover — Pharmaceutical Distribution” for a more detailed discussion. The increase in pharmaceutical distribution segment gross margin was primarily due to (i) greater discounts to product procurement prices we were able to obtain from suppliers as a result of our increased purchase volumes and our increased payment of deposits; and (ii) increased profit from sales to franchise retail pharmacy stores due to the implementation of the “Remote Prescription Review” system during the year ended December 31, 2014.

The increase in segment revenue of our self-operated retail pharmacies segment during the Track Record Period was primarily due to increase in the number of our self-operated retail pharmacy stores, including our acquisition of the stores under Baixintang and our opening of a total of five large Japanese-style cosmeceutical stores, and our expanded product portfolio. The decrease in segment gross margin from 2012 to 2013 was primarily due to the addition of three Japanese-style cosmeceutical stores in 2013 as these stores have lower average gross profit margins. The increase in segment gross margin from 2013 to 2014 was primarily because we closed one Japanese-style cosmeceutical store and suspended the operations of another one due to relocation, as these stores have lower gross profit margins compared with our other self-operated retail pharmacy stores. For the years ended December 31, 2012, 2013 and 2014, we incurred operating losses of RMB1.7 million, RMB6.1 million and RMB5.0 million, respectively, for our self-operated retail pharmacies segment. Operating profit or loss for the self-operated retail pharmacies segment is calculated by deducting operating expenses, including rental costs, salaries and benefits for related personnel and depreciation and amortization expenses, from the segment gross profit. We incurred operating losses for the self-operated retail pharmacies segment during the Track Record Period primarily because (i) our Japanese-style cosmeceutical stores have relatively low gross profit margins as a result of the product portfolio they carry and they have high fixed costs because they are located in premium commercial areas where average rental costs are high, they have large store areas which require more fixtures and decorations as well as more rental expenses, and they have large sales teams; and (ii) our regular self-operated retail pharmacy stores located in Chengdu incurred operating losses during the Track Record Period primarily because (A) those stores are located in premium commercial areas with relatively high rental costs; and (B) certain government road construction projects restricted access to some of those stores since the beginning of 2013 and caused pedestrian traffic around them to decline. For details, please see “Financial Information — Components of Our Statements of Profit or Loss — Cost of Sales, Gross Profit and Gross Margin — Self-operated Retail Pharmacies.”

Segment revenue of the pharmaceutical manufacturing segment decreased from 2012 to 2013 primarily as a result of our strategic decision to reduce our sales volume in order to maintain the average selling prices of our principal products and enhance our profit margin. The increase in segment revenue from 2013 to 2014 was primarily due to our expanded markets and our enhanced promotion to our sub-distributors. The increase in segment gross margin from 2012 to 2013 was primarily due to decreases in the purchase prices of our raw materials from 2012 to 2013. The decrease in segment gross margin from 2013 to 2014 was primarily due to the increase in average raw material costs. During the Track Record Period, prices for raw materials used in our pharmaceutical manufacturing fluctuated slightly due to changes in market demand and supply.

SUMMARY

Our profit for the year fluctuated during the Track Record Period primarily due to (i) change in fair value on convertible redeemable preferred shares. For details, please see “Financial Information — Components of Our Statements of Profit or Loss — Change in Fair Value on Convertible Redeemable Preferred Shares”; and (ii) a significant increase in general and administrative expenses in 2014 primarily as a result of the increase in professional and audit fees related to the Listing.

HISTORICAL NON-COMPLIANCE

Our PRC subsidiaries did not make adequate contribution to social insurance fund or housing fund for our employees between the establishment of our Group and June 2014. As of the Latest Practicable Date, we had adopted certain measures to rectify as well as prevent future occurrence of this non-compliance. In June 2014, we began to substantially rectify the non-compliance regarding social insurance and housing fund according to relevant PRC laws and regulations and rectified in full in December 2014. According to our PRC advisors, Shu Jin Law Firm, the risk of us being penalized by PRC government authorities for such non-compliance is low. Our Directors do not believe this non-compliance will have any material operational or financial impact on us. For details, please see “Business — Legal Compliance and Proceedings.”

As of the Latest Practicable Date, we had not obtained (i) the state-owned land use right certificate for the New Wenjiang Land; and (ii) the building ownership certificates for ten buildings located on the New Wenjiang Land, which housed our production facilities. We have formulated a contingency plan in the event that we are required to relocate from the New Wenjiang Land. We will enhance our internal control in this regard and disclose the rectification progress in our annual and interim reports after the Listing to update Shareholders and potential investors. For details, please see “Business — Properties — Owned properties — Properties with defective titles in the PRC”.

RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, our business model, revenue structure and cost structure remained unchanged. For the four months ended April 30, 2015 compared with the four months ended April 30, 2014, the number of our pharmaceutical wholesaler customers decreased by 36.0% primarily because we terminated certain such customers with low revenue contribution in order to focus our resources on customers with high revenue contribution and develop new customers, the number of franchise retail pharmacy stores increased by 2.1% due in part to the implementation of our “Remote Prescription Review” system in January 2014 which helped to attract franchisees, and the number of customers in our rural pharmaceutical distribution business decreased by 14.3% primarily because the continued effect of the PRC government policy changes that allowed up to three distributors in areas where we used to enjoy exclusive distribution rights. The decrease in the number of our pharmaceutical wholesaler customers did not have any material impact on us because the terminated pharmaceutical wholesalers had immaterial revenue contribution in the aggregate. The number of our self-operated retail pharmacy stores decreased by 14.7% from 34 as of April 30, 2014 to 29 as of April 30, 2015 primarily because we still had five self-operated retail pharmacy stores that were in the process of relocating after we re-opened two self-operated retail pharmacy stores in the four months ended April 30, 2015. As of the Latest Practicable Date, we had entered into lease agreements for two stores and were in the process of selecting sites for the other three stores. The number of distributors for our pharmaceutical manufacturing business remained stable at approximately 200 as of April 30, 2014 and April 30, 2015.

As of April 30, 2015, the fair value of our convertible redeemable preferred shares amounted to RMB264.9 million, representing an increase of RMB7.7 million in our current liabilities and an increase of RMB0.1 million in our non-current liabilities compared with December 31, 2014. Change in the fair value on convertible redeemable preferred shares, which will be recognized in our consolidated statement of profit or loss, amounted to RMB8.3 million in fair value loss for the four months ended April 30, 2015. Our reporting accountants have performed appropriate procedures on the fair value measurement of our convertible redeemable preferred shares as of April 30, 2015 in accordance with the Hong Kong Standard on Related Services 4400 “Engagements to Perform Agreed-Upon Procedures Regarding Financial Information” issued by the HKICPA.

SUMMARY

The PRC government amended the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) in April 2015 and issued three related implementation circulars on May 4, 2015. See “Regulations — PRC Laws and Regulations on the Pharmaceutical Industry — Regulatory Framework” for details. Under these regulatory changes, effective from June 1, 2015, the PRC government will no longer fix selling prices or impose price ceilings for pharmaceutical products except for certain specialty drugs. We believe that these regulatory developments will not materially affect our business or results of operations because (i) pharmaceutical products with government-directed prices represented a relatively small part of the total pharmaceutical distribution market, and any impact from changes in their prices will likely be limited. The majority of pharmaceutical products have been priced mainly through market-driven bidding processes at medical institutions, which will remain the same; and (ii) we sell pharmaceutical products primarily on a “cost-plus” basis.

Except as disclosed above, our Directors confirm that as of the date of this prospectus, there has been no material adverse change in our financial or trading position since December 31, 2014 and no event has occurred since December 31, 2014 that would materially and adversely affect the information shown in the Accountants’ Report set forth in Appendix I to this prospectus.

LISTING EXPENSES

We have incurred legal, professional and other fees with respect to the Listing. In accordance with relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon the Listing. The remaining listing related fees are charged to statements of profit or loss and other comprehensive income. We expect that the total amount of listing related expenses, including underwriting commission, would be approximately RMB40.5 million. We expect listing expenses excluding underwriting commission would be approximately RMB33.3 million, of which RMB10.9 million will be charged to our consolidated statements of profit or loss for the year ending December 31, 2015. We do not expect these expenses to have a material impact on our business and results of operations for the year ending December 31, 2015.

DIVIDEND POLICY

The declaration, payment and amount of dividends will be subject to our discretion. Dividends may be paid only out of our distributable profits as permitted under the relevant laws. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. Subject to the factors described above, our Board intends to recommend at the relevant shareholders meetings an annual dividend of no less than 30% of our future net profit available for distribution to the shareholders in the foreseeable future.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$249.4 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses in connection with the Global Offering and assuming the initial public Offer Price of HK\$1.20 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 48.6%, or HK\$121.3 million, is expected to be used for our planned logistics center in Chengdu, among which approximately 49.5%, or HK\$60.0 million, is expected to be used for facility construction and leasehold improvements, and approximately 50.5%, or HK\$61.3 million, is expected to be used for the acquisition and installation of equipment and software;

SUMMARY

- approximately 46.6%, or HK\$116.2 million, is expected to be used primarily to acquire or establish self-operated retail pharmacy stores. We currently intend to acquire or establish 75 to 85 self-operated retail pharmacy stores in Sichuan, Hebei and Hubei provinces by the end of 2016. We currently have no plan to open any additional Japanese-style cosmeceutical stores or self-operated retail pharmacy stores in Chengdu. As of the Latest Practicable Date, we had not identified any acquisition target; and
- approximately 4.8%, or HK\$11.9 million, is expected to be used to fund our working capital and general corporate purposes.

In the event that the Offer Price is set at the high-end or low-end of the proposed Offer Price range or the Over-allotment Option is exercised, our intended use of proceeds will be increased or decreased on a pro-rata basis.

RISK FACTORS

There are certain risks involved in our operations, many of which are beyond our control. These risks can be broadly categorized into (i) risks relating to our business operations; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering. We believe the most significant risks involved in our business and results of operations include:

- We operate in a highly competitive industry, and our business, financial condition and results of operations may be adversely affected if we are unable to compete effectively in the PRC pharmaceutical industry.
- Our business relies, to a large extent, on the stable supply of pharmaceutical products, and any disruption or termination of or material change in our supplier relationships may have a negative impact on our business operations.

Please see the section headed “Risk Factors” in this prospectus for detailed discussion of these and other risks.

OFFERING STATISTICS

	Based on an Offer Price of HK\$1.00 per Share	Based on an Offer Price of HK\$1.40 per Share
Market capitalization of our Share ⁽¹⁾	HK\$1,000 million	HK\$1,400 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽²⁾	HK\$0.41	HK\$0.51

Notes:

- (1) All statistics in this table are based on the assumption that the Over-allotment Option and options under the Share Option Scheme are not exercised. The calculation of market capitalization is based on 1,000,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering and the Capitalization Issue before exercise of the Over-allotment Option.
- (2) The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II and based on 1,000,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering and the Capitalization Issue before exercise of the Over-allotment Option.

DEFINITIONS

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

“Advance Apex”	Advance Apex Limited (晉鼎有限公司), a company incorporated under the laws of the British Virgin Islands on November 17, 2010 and which is owned as to 47% by Mr. Li Ho Tan, 50% by Mr. Cheung, Chi Mang, and 3% by Fast Sino Holdings Limited, which is wholly-owned by Mr. Yu Wentao (余文韜). Advance Apex was nominated by Hong Kong Investments to take up the Series A Shares in our Company and one of our substantial shareholders upon the Listing
“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offer
“Articles of Association” or “Articles”	the articles of association of our Company adopted on May 26, 2015 and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Baixintang”	Hubei Baixintang Pharmacy Chain Store Co., Ltd.* (湖北百信堂大藥房連鎖有限公司), a limited liability company established under the laws of the PRC on March 24, 2011, a wholly-owned, principal operating subsidiary of our Group
“Board” or “Board of Directors”	the board of Directors
“Business Cooperation Agreement”	a business cooperation agreement dated January 17, 2012 entered into by V-drug, our Company, Mr. Chen, Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store to specify the details of the business cooperation between our Company and V-drug under the Series B Share Subscription Agreement
“business day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong

DEFINITIONS

“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of 749,000,000 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Written resolutions of all Shareholders of our Company passed on May 26, 2015” under the section headed “Further Information about our Company” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CFDA” or “SFDA”	The China Food and Drug Administration (國家食品藥品監督管理總局), the PRC governmental authority responsible for the regulation of food and drugs, which succeeded the State Food and Drug Administration (“SFDA”) (國家食品藥品監督管理局) on March 10, 2013
“Chengdu Kexun”	Chengdu Kexun Pharmacy Co., Ltd.* (成都科訊藥業有限公司), a limited liability company established under the laws of the PRC on February 7, 1995, a wholly-owned, principal operating subsidiary of our Group
“Chengdu Keyi”	Chengdu Keyi Biotechnology Co., Ltd.* (成都科一生物科技股份有限公司), a limited liability company established under the laws of the PRC on July 22, 2013, a wholly-owned, principal operating subsidiary of our Group

DEFINITIONS

“Chengdu Pashun”	Chengdu Toyot Pa Shun Pharmacy Co., Ltd.* (成都東洋百信製藥有限公司), a limited liability company established under the laws of the PRC on February 23, 1995, a wholly-owned, principal operating subsidiary of our Group
“Chengdu Pashun Chain Store”	Chengdu Pa Shun Pharmacy Chain Store Co., Ltd.* (成都百信藥業連鎖有限責任公司), a limited liability company established under the laws of the PRC on May 27, 2002, a wholly-owned, principal operating subsidiary of our Group
“Chengdu Zhenlong”	Chengdu Zhenlong Baixintang Pharmaceutical Co., Ltd.* (成都真龍百信堂藥業有限公司), a limited liability company established under the laws of the PRC on June 27, 2011, an Independent Third Party after the Corporate Reorganization
“China” or “PRC”	People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“China Everbright” or “Sole Sponsor”	China Everbright Capital Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities (as defined under the SFO), being the sole sponsor of the Listing
“China Everbright Securities” or “Sole Global Coordinator” or “Sole Bookrunner” or “Sole Lead Manager”	China Everbright Securities (HK) Limited, a licensed corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, being the sole global coordinator, sole bookrunner and sole lead manager of the Global Offering
“Chunshengtang”	Hebei Chun Sheng Tang Chain Store Co., Ltd.* (河北春生堂大藥房連鎖有限公司), a limited liability company established under the laws of the PRC on February 22, 2010, a 80%-owned, principal operating subsidiary of our Group
“Companies (WUMP) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands

DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“Company” or “our Company”, “we” and “us”	Pa Shun Pharmaceutical International Holdings Limited (百信藥業國際控股有限公司) (formerly known as Pa Shun Pharmaceutical International Holdings Ltd.), a limited liability company incorporated under the laws of the Cayman Islands on May 3, 2011, or where the context refers to any time prior to its incorporation, those businesses and operations which were assumed by it pursuant to the Corporate Reorganization, or where the context requires, any of the businesses and operations that is being carried on by any member of our Group
“Connected Person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Chen, and Praise Treasure which is the entity through which Mr. Chen controls approximately 48.80% voting rights in the general meeting of our Company immediately after the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option and options under the Share Option Scheme are not exercised)
“Corporate Reorganization”	the corporate reorganization of our Group conducted in preparation for the Listing, details of which are set out in the paragraph headed “Corporate Reorganization” under the section headed “History and Corporate Structure” in this prospectus
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
“Deed of Indemnity”	a deed of indemnity dated May 26, 2015 given by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding certain indemnities, further information of which is set out in the paragraph headed “Other Information — 1. The Deed of Indemnity” in Appendix IV to this prospectus

DEFINITIONS

“Deed of Non-competition”	a deed of non-competition dated May 26, 2015 given by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries from time to time) regarding the non-competition undertaking, further information of which is set out in the section headed “Relationship with Controlling Shareholders” in this prospectus
“Director(s)”	the directors of our Company
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), enacted on March 16, 2007, as amended from time to time
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offer and the International Placing
“GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form service provider designated by our Company
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Hainan Baixin”	Hainan Baixin Pharmaceutical Co., Ltd.* (海南百信藥業有限公司), a limited liability company established under the laws of the PRC on February 15, 1992, which is 90% owned by Toyot Pa Shun Medicine Company (東洋百信藥業公司), a branch of Hopecorns Industrial Ltd (合強實業有限公司), a limited liability company owned as to 50% by Mr. Chen and 50% by Mr. Chen’s spouse, and 10% owned by Hainan Pharmaceutical Technology Development Co., Ltd.* (海南醫藥技術開發公司), a state-owned company and an Independent Third Party
“HK\$”, “HK dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name through the designated website of HK eIPO White Form www.hkeipo.hk

DEFINITIONS

“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website www.hkeipo.hk
“HKFRS”	Hong Kong Financial Reporting Standards (including HKAS and Interpretations) issued by HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Investments”	Hong Kong Investments Group Limited, a limited liability company incorporated under the laws of the BVI on December 1, 2006 and which is 100% owned by Mr. Cheung, Chi Mang, one of our substantial shareholders upon the Listing. Hong Kong Investments has nominated Advance Apex to take up the Series A Shares in our Company
“Hong Kong Offer Shares”	the 25,000,000 Shares being initially offered by our Company for subscription under the Hong Kong Public Offer at the Offer Price (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offer”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and in the Application Forms relating thereto
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer listed in the paragraph headed “Hong Kong Underwriters” under the section headed “Underwriting” in this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement relating to the Hong Kong Public Offer of 25,000,000 Shares (subject to re-allocation) in the capital of our Company, dated June 8, 2015 and entered into by our Company, Praise Treasure and Mr. Chen, as the Covenantors (as defined therein), Mr. Chen, Mr. Su Si, Mr. Shen Shun, Mr. Zhou Jian, each as an executive Director, China Everbright, China Everbright Securities, and the Hong Kong Underwriters, as further described in the paragraph headed “Hong Kong Underwriters” in the section headed “Underwriting” in this prospectus
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“International Placing”	the conditional placing by the International Underwriters of the International Placing Shares at the Offer Price as set out in the section headed “Structure of the Global Offering” in this prospectus
“International Placing Shares”	the 225,000,000 Shares being initially offered by our Company for subscription under the International Placing at the Offer Price (subject to adjustment and the Over-allotment Option as described in the section headed “Structure of the Global Offering” in this prospectus)
“International Underwriters”	the underwriters of the International Placing listed in the paragraph headed “International Underwriters” under the section headed “Underwriting” in this prospectus
“International Underwriting Agreement”	the underwriting agreement relating to the International Placing expected to be entered into by, among others, our Company, the Sole Global Coordinator and the International Underwriters relating to the International Placing on or about the Price Determination Date, as further described in the section headed “Underwriting” in this prospectus
“IPO”	the initial public offering of the Shares of our Company on the Main Board of the Stock Exchange

DEFINITIONS

“Jumbo Success”	Jumbo Success Holdings Limited, a limited liability company incorporated under the laws of the British Virgin Islands on October 29, 2010 and which is wholly-owned by Mr. Li Ho Tan. Jumbo Success is one of our pre-IPO investors
“Latest Practicable Date”	June 3, 2015 being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Stock Exchange, which is expected to be on or about Friday, June 19, 2015
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Main Board”	the stock exchange operated by the Stock Exchange before the establishment of the Growth Enterprise Market of the Stock Exchange (excluding the option market) and which continues to be operated by the Stock Exchange in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the amended and restated memorandum of association of our Company adopted on May 26, 2015 and as amended from time to time
“Ministry of Commerce” or “MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOH”	the Ministry of Health of the People’s Republic of China (中華人民共和國衛生部)
“Mr. Chen”	Mr. Chen Yenfei, or Mr. Chen Yen Fei (陳燕飛), a Controlling Shareholder, an executive Director, the chairman of the Board and the chief executive officer
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)

DEFINITIONS

“NFS”	the China Southern Medicine Economic Research Institution of China Food and Drug Administration (國家食品藥品監督管理總局南方醫藥經濟研究所), a research institute affiliated with the CFDA and an independent third party
“Offer Price”	the final offer price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) which will be not more than HK\$1.40 and is expected to be not less than HK\$1.00, such price to be determined on or around Friday, June 12, 2015 or such later date on or before Monday, June 15, 2015 as may be agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters)
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters, pursuant to which our Company may be required to allot and issue up to 37,500,000 additional new Shares, representing 15% of the Shares initially available under the Global Offering at the Offer Price, to cover over-allocations of the International Placing (if any) as further described in the section headed “Structure of the Global Offering”
“Pashun BVI”	Pa Shun Pharmaceutical Company Limited (百信藥業有限公司), a limited liability company incorporated under the laws of the BVI on May 23, 2011, a wholly-owned subsidiary of our Group
“Pashun HK”	Toyot Pa Shun Medicine Factory Company Limited (東洋百信製藥廠有限公司), a limited liability company incorporated under the laws of Hong Kong on April 14, 1989, a wholly-owned subsidiary of our Group
“PBOC”	People’s Bank of China (中國人民銀行)
“Praise Treasure”	Praise Treasure Limited (嘉寶有限公司), a limited liability company incorporated under the laws of the BVI on March 9, 2011, a Controlling Shareholder and which is 100% owned by Mr. Chen

DEFINITIONS

“PRC Government” or “State”	the central government of the PRC, including all political sub-divisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
“Preferred Shares”	collectively, the Series A Shares and Series B Shares
“Price Determination Agreement”	the agreement expected to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Friday, June 12, 2015 but in any event not later than Monday, June 15, 2015, on which the Offer Price is fixed for the purpose of the Global Offering
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offer
“provinces”	include provinces, autonomous regions and municipalities under the direct administration of the central government of the PRC
“Regulation S”	Regulation S under the U.S. Securities Act
“Repurchase Mandate”	the general unconditional mandate granted to the Directors by our Shareholders in relation to the repurchase of our Shares, further information on which is set forth in the section headed “Written resolutions of all the Shareholders of our Company passed on May 26, 2015” under the section headed “Further information about our Company” in Appendix IV to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation (國家稅務總局)

DEFINITIONS

“segment revenue”	total revenue generated by a business segment, including revenue generated from external sales to outside customers and from inter-segment sales to our other business segments
“Series A Deed of Amendment (2014)”	a deed of amendment relating to the share subscription agreement, dated May 22, 2014 and entered into by our Company, Advance Apex, Hong Kong Investments, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, pursuant to which certain terms of the Series A Share Subscription Agreement were amended
“Series A Deed of Amendment (2015)”	a second deed of amendment relating to the share subscription agreement, dated February 12, 2015 and entered into by our Company, Advance Apex, Hong Kong Investments, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, pursuant to which certain terms of the Series A Share Subscription Agreement were amended
“Series A Share Subscription Agreement”	a share subscription agreement in respect of series A convertible redeemable preferred shares in the capital of our Company, dated December 31, 2011 and entered into by Hong Kong Investments, our Company, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, pursuant to which Hong Kong Investments agreed to subscribe for 102,912 Series A Shares for a subscription amount of US\$8,000,000
“Series A Shares”	the series A convertible redeemable preferred shares of HK\$0.001 each of the Company
“Series B Deed of Amendment (2014)”	a deed of amendment relating to the shareholders’ agreement, dated March 13, 2014 and entered into by our Company, Advance Apex, V-drug, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun, Chengdu Pashun Chain Store and Jumbo Success, pursuant to which (1) Praise Treasure irrevocably and unconditionally agreed to transfer 2,000 ordinary Shares in the share capital of our Company to V-drug pursuant to the Shareholders’ Agreement and (2) certain terms of the Shareholders’ Agreement were amended

DEFINITIONS

“Series B Deed of Amendment (2015)”	a second deed of amendment relating to the shareholders’ agreement, dated February 12, 2015 and entered into by our Company, Advance Apex, V-drug, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun, Chengdu Pashun Chain Store and Jumbo Success, pursuant to certain terms of the Shareholders’ Agreement were amended
“Series B Share Subscription Agreement”	a share subscription agreement in respect of series B convertible redeemable preferred shares in the capital of our Company, dated January 6, 2012 and entered into by V-drug, our Company, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, pursuant to which V-drug agreed to subscribe for 40,000 Series B Shares for a subscription amount of US\$5,000,000
“Series B Shares”	the Series B convertible redeemable preferred shares of HK\$0.001 each of the Company
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented, or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.001 each in the capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on May 26, 2015, the principal terms of which are summarized under the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Agreement”	a shareholders’ agreement relating to our Company, dated February 24, 2012 and entered into by our Company, Advance Apex, V-drug, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun, Chengdu Pashun Chain Store and Jumbo Success, in relation to, among other things, the respective rights and obligations of shareholders of our Company

DEFINITIONS

“Sichuan Kemeng”	Sichuan Kemeng Medical Trading Co., Ltd.* (四川科盟醫藥貿易有限公司), a limited liability company established under the laws of the PRC on August 27, 2008, an Independent Third Party after the Corporate Reorganization
“Sichuan Pengsen”	Sichuan Pengsen Pharmaceutical Co., Ltd.* (四川鵬森藥業有限公司), a limited liability company established under the laws of the PRC on February 17, 2011, an Independent Third Party after the Corporate Reorganization
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Sole Global Coordinator and Praise Treasure on the Price Determination Date, pursuant to which the Sole Global Coordinator may borrow up to 37,500,000 Shares from Praise Treasure to cover any over-allocation under the International Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholders”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three years ended December 31, 2014
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“VAT”	value-added tax

DEFINITIONS

“V-drug”	V-drug Hong Kong Co., Limited, a limited liability company incorporated under the laws of Hong Kong on April 4, 2011 and which is indirectly wholly-owned by Chubu Yakuhin Co., Ltd., which in turn is 100% beneficially owned by Valor Co., Ltd., a company listed on the Tokyo Stock Exchange. V-drug is one of our pre-IPO investors and is an Independent Third Party apart from holding Shares in our Company and one of our business partners
“V-drug Chengdu”	V-drug Chengdu Co., Ltd. (美多康(成都)商貿有限公司), a limited liability company established in the PRC in May 2012 and a wholly owned subsidiary of V-drug for the purpose of the Business Cooperation Agreement
“Wuhan Baixin”	Wuhan Baixin Pharmaceutical Co., Ltd.* (武漢百信藥業有限公司), a limited liability company established under the laws of the PRC on March 27, 1996 and is currently wholly-owned by Pa Shun Holdings Limited (百信集團控股有限公司), an investment holding company owned as to 35% by Mr. Chen, 25% by Ms. Lee Yuk Suet (李玉雪), Mr. Chen’s spouse and 20% by Mr. Chan Chun Ming (陳俊鳴), Mr. Chen’s son
“%”	per cent

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

DEFINITIONS

Unless otherwise specified or for transactions that have occurred at historical exchange rates, amounts denominated in RMB and US dollar have been translated, in each case for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK\$1.00: RMB0.80

HK\$7.80: US\$1.00

HK\$1.00: US\$0.13

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

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” is for identification purpose only.*

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

GLOSSARY

This glossary contains certain technical terms used in this prospectus in connection with our Company. Such terms and their meanings may not correspond to standard industry definitions or usage.

“GMP”	“Good Manufacturing Practices” (藥品生產質量管理規範), guidelines and regulations issued from time to time pursuant to Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) to provide quality assurance and ensure that pharmaceutical manufacturing enterprises manufacture pharmaceutical products in compliance with the guidelines and regulations
“GSP”	“Good Supply Practices” (藥品經營質量管理規範), guidelines and regulations issued from time to time pursuant to Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) to provide quality assurance and ensure that pharmaceutical products supply enterprises supply pharmaceutical products in compliance with the guidelines and regulations
“HPV”	human papillomavirus, a DNA virus from the papillomavirus family that is capable of infecting humans. HPVs establish productive infections only in keratinocytes of the skin or mucous membranes. Most HPV infections are subclinical and will cause no physical symptoms. However, some people subclinical infections will become clinical and may cause benign papillomas such as warts or squamous cell papilloma, or cancers of the cervix, vulva, vagina, penis, oropharynx and anus
“National List of Essential Drugs”	a list of drugs promulgated by MOH to promote essential medicines to be sold to consumers at fair prices and to ensure equal access to basic drugs by the general public
“National Medical Insurance Drugs Catalog”	a catalog of the list of pharmaceutical products under the National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) as determined by the Ministry of Human Resources and Social Security of the People’s Republic of China for general application throughout the PRC, as amended, supplemented or otherwise modified from time to time

GLOSSARY

“over-the-counter medicines”

pharmaceutical products which may, upon receiving SFDA approval, be sold over the counter in pharmacies or other retail outlets without requiring a prescription by a medical practitioner

“Provincial Medical Insurance Drugs Catalog”

the basic medical insurance, work injury insurance and maternity insurance drugs catalog, issued by the provincial, municipal or autonomous region’s human resource and social security agency

FORWARD-LOOKING STATEMENTS

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

- (1) our business strategies and plan of operation;
- (2) our capital expenditure plans;
- (3) the amount and nature of, and potential for, future development of our business;
- (4) our operations and business prospects;
- (5) our dividend policy;
- (6) projects under construction or planning;
- (7) the regulatory environment of our industry in general; and
- (8) future development in our industry.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. One or more of these risks or uncertainties may materialize, or underlying assumptions may prove incorrect.

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

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since our principal business operations and manufacturing facilities are primarily located in the PRC and will continue to be based in the PRC, our executive Directors and senior management members (except for Mr. Pang, Peter Chun Ming) are and will continue to be based in the PRC. At present, Mr. Pang, Peter Chun Ming, one of our joint company secretaries, is ordinarily resident in Hong Kong and none of our executive Directors is ordinarily resident in Hong Kong. We have applied to the Stock Exchange for, and obtained, a waiver from strict compliance with the requirements set out in Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal channel of communication with the Stock Exchange. The two authorized representatives are Mr. Chen, our executive Director, and Mr. Pang, Peter Chun Ming, one of our joint company secretaries, who is ordinarily resident in Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or e-mail. Each of the authorized representatives has been duly authorized to communicate on our behalf with the Stock Exchange. All of them have confirmed that they possess valid travel documents to Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required;
- (b) Our authorized representatives have means of contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters. To enhance communication between the Stock Exchange, the authorized representatives and our Directors, our Company has implemented a policy whereby (a) each Director will have to provide his office phone number, mobile phone number, residential phone number, office facsimile number and email address to the authorized representatives; (b) each Director will provide valid phone numbers or means of communication to the authorized representatives when he travels; and (c) all Directors will provide their mobile phone numbers, office phone numbers, email addresses and fax numbers to the Stock Exchange;
- (c) Our Company has, in accordance with Rule 3A.19 of the Listing Rules, also appointed China Everbright Capital Limited as its compliance adviser, who will act as an additional channel of communication with the Stock Exchange. The compliance adviser will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong for a period commencing on the Listing date at least until the date on which the Company announces its financial results and determines its annual report for the first full financial year following the Listing;
- (d) Meetings between the Stock Exchange and our Directors could be arranged through our authorized representatives or our Company's compliance adviser, or directly with the Directors within a reasonable time frame. Our Company will inform the Stock Exchange promptly in respect of any change in the Company's authorized representatives and compliance adviser; and

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) Each Director who is not ordinarily resident in Hong Kong has confirmed that he either possesses or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period upon request.

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must have a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary. The academic or professional qualifications that are acceptable to the Stock Exchange are as follows:

1. a member of the Hong Kong Institute of Chartered Secretaries;
2. a solicitor or barrister (as defined in the Legal Practitioners Ordinance); or
3. a certified public accountant (as defined in the Professional Accountants Ordinance).

We have appointed Mr. Pang, Peter Chun Ming as one of our joint company secretaries. For Mr. Pang, Peter Chun Ming's biography, please refer to the paragraph headed "Senior Management" under the section headed "Directors and Senior Management" of this prospectus. However, Mr. Pang, Peter Chun Ming does not currently satisfy the appointment qualifications set out under Rule 3.28 of the Listing Rules. Therefore, we have appointed Mr. Tsoi, Yuen Hoi, an associate member of Hong Kong Institute of Certified Public Accountants, who satisfies the qualifications requirements under Rule 3.28 of the Listing Rules, to be the other joint company secretary. Mr. Tsoi, Yuen Hoi will provide assistance to Mr. Pang, Peter Chun Ming for an initial period of three years from the Listing Date to fully satisfy the requirements set out under Rules 3.28 and 8.17 of the Listing Rules.

Mr. Tsoi, Yuen Hoi will work closely with Mr. Pang, Peter Chun Ming in discharge of their duties and responsibilities as our joint company secretaries and will provide assistance to Mr. Pang, Peter Chun Ming to acquire the relevant experience set out under Rule 3.28 of the Listing Rules. In addition, Mr. Pang, Peter Chun Ming will participate in relevant trainings to improve and promote his knowledge and understanding of the Listing Rules as well as other applicable laws and regulations.

We have submitted our application to the Stock Exchange, and the Stock Exchange has granted a waiver from strict compliance with Rule 8.17 of the Listing Rules, for an initial period of three years from the Listing Date, provided that Mr. Tsoi, Yuen Hoi will act as a joint company secretary and provide assistance to Mr. Pang, Peter Chun Ming in discharge of his duties as a joint company secretary and in gaining the relevant experience as required under Rule 3.28 of the Listing Rules during this period. At the expiry of the three-years period, we will make a further evaluation of Mr. Pang, Peter Chun Ming's qualifications and experience to determine whether the requirements set out under Rule 3.28 of the Listing Rules are satisfied. We and Mr. Pang, Peter Chun Ming would then endeavor to demonstrate to the Stock Exchange's satisfaction that Mr. Pang, Peter Chun Ming, having had the benefit of Mr. Tsoi, Yuen Hoi's assistance for three years, will have acquired the relevant experience under Rule 3.28 of the Listing Rules, so that a further waiver will not be necessary.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to the Offer Shares. Additional risks and uncertainties not presently known to us or that we currently deem immaterial could also harm our business, financial condition and results operations.

RISKS RELATING TO OUR BUSINESS OPERATIONS

We operate in a highly competitive industry, and our business, financial condition and results of operations may be adversely affected if we are unable to compete effectively in the PRC pharmaceutical industry.

The pharmaceutical industry in the PRC is highly fragmented and competitive. Our key competitors include large national and regional distributors and manufacturers of pharmaceutical and healthcare products and large national and regional retail pharmacy chains. Moreover, the PRC pharmaceutical industry is open to foreign investment. In addition, the PRC Government has removed restrictions prohibiting foreign investors from holding controlling interest in any pharmaceutical sale and distribution enterprise of a certain operating scale. As a result, more foreign competitors may enter markets where we currently operate. The domestic large national and regional as well as foreign competitors may have substantially greater financial, technical, research and development, marketing, distribution, and other resources than we do. They may also have longer operating histories, larger customer bases or broader and deeper market coverage.

We cannot assure you that we will be able to remain competitive by continually distinguishing our products and services, or maintain our supplier and customer relationships, nor can we assure you that we will be able to increase or maintain our existing market share. Competition is likely to intensify if (i) the number of distributors of similar products or suitable substitutes increases due to the increase in market demand; (ii) competitors drastically reduce prices due to oversupply of products or in response to competition; or (iii) competitors distribute new products or substitute products having comparable medical applications or therapeutic effects at comparable or even lower prices.

Our ability to compete successfully will depend upon a variety of factors, including our ability to price products competitively, our ability to obtain sufficient capital for our expansion plans, and our ability to diversify our product portfolio.

We expect to continue to face a highly competitive market environment. If we fail to react to the rapidly changing market conditions, control product procurement and raw material costs or efficiently allocate resources over our business expansion, or otherwise mismanage the development of our business operations, our business, financial condition and results of operations could be materially and adversely affected.

Our business relies, to a large extent, on the stable supply of pharmaceutical products. Any disruption or termination of or material change in our supplier relationships may have a negative impact on our business operations.

During the Track Record Period, external revenue from pharmaceutical distribution segment accounted for approximately 87.7%, 87.6% and 83.5% of our total turnover for the years ended December 31, 2012, 2013 and 2014, respectively. Furthermore, our purchases from our top five suppliers represented approximately 28.7%, 38.2% and 43.6% of our total cost of sales during the same periods.

RISK FACTORS

Our business is dependent to a large extent upon the stable supply of products from our suppliers. If we fail to maintain stable relationships with our suppliers, we may not be able to secure a stable supply of products, which, in turn, may materially and adversely affect our business, financial condition and results of operations.

We have had business relationships with most of our current suppliers since 2003. However, we cannot assure you that our suppliers will continue to sell products to us on commercially reasonable terms, or at all. Nor can we assure you that we will be able to establish relationships with new suppliers, or renew our agreements with existing suppliers when such agreements expire. Our agreements with suppliers may be terminated from time to time due to various reasons beyond our control. Moreover, the distribution agreements for some of the products which we sell through our pharmaceutical distribution segment are not exclusive, and we cannot assure you that our competitors will not obtain the distribution rights for certain of such products. In addition, we have limited control over our suppliers' business operations. If our suppliers fail to comply with any regulatory requirements or infringe third parties' intellectual property rights, they may not be able to obtain the requisite certificates, permits and licenses required under the applicable laws to conduct their manufacturing or other business activities, which could affect their supply of pharmaceutical and healthcare products to us. In the event that there is any disruption, termination or material change in the supply of pharmaceutical or healthcare products to us and we are unable to find suitable substitutes on a timely basis, our business, financial condition and results of operations may be adversely affected.

We may not be successful in winning bids in government-organized tender processes for distribution of pharmaceutical products to hospitals and other medical institutions in rural areas.

During the Track Record Period, turnover from distributing pharmaceutical products to hospitals and other medical institutions in rural areas represented approximately 15.3%, 8.5% and 10.4% of our total turnover for the years ended December 31, 2012, 2013 and 2014, respectively. In general, suppliers of pharmaceutical products must participate in collective tender processes organized by provincial or municipal governments to win the right to supply medicines listed in the National and Provincial Medical Insurance Catalog and medicines that are consumed in large volumes and commonly prescribed for clinical use. Hospitals and other medical institutions in rural areas are generally allowed to purchase pharmaceutical products from the winning bidders of the collective tender processes only, except as otherwise approved by the Provincial Collective Tender Administration Department (省級藥品集中採購工作管理機構). For further information on the tender process, please see the section headed "Regulations — The Rural Drug Distribution" in this prospectus. After the tender process, we sell the pharmaceutical products that are the subject of winning bids in such tender process to hospitals and other medical institutions in the rural areas.

Due to the government policy changes relating to rural pharmaceutical distribution promulgated in 2011 by the Food and Drug Bureau, Health and Family Planning Bureau of Chengdu (formerly known as Health Bureau of Chengdu), Commission of Development and Reform and Bureau of Finance of Chengdu, Development and Reform Commission of Chengdu and Bureau of Finance of Chengdu (成都市食品藥品監督管理局、成都市衛生局、成都市發展和改革委員會、成都市財政局) which allowed up to three companies to engage in rural pharmaceutical distribution in each city or district, we face intensified competition in our rural pharmaceutical distribution business. Our market share in our existing rural distribution markets may be further reduced. If we are not successful in winning bids in the tender process that we participate in, our turnover generated from rural pharmaceutical distribution will not be able to grow as expected or may decline, which in turn would have a material and adverse effect on our business, financial condition and results of operations.

RISK FACTORS

Our self-operated retail pharmacy operations are subject to certain risks that may affect our business, financial condition and results of operations.

We are subject to certain risks relating to our self-operated retail pharmacy operations, including but not limited to:

- the inability to respond to changes in consumer demand in a timely manner;
- the inability to stock an adequate supply of popular pharmaceutical products and related merchandise at our retail pharmacy stores;
- the inability to obtain and maintain regulatory or governmental permits, approvals and clearances, or to pass inspections or audits by PRC Government; and
- the risk of, and resulting liability from, any injury or other harm involving products purchased from our self-operated retail pharmacy stores.

The occurrence of any such risks in our self-operated retail pharmacy operations may affect our business, reputation, financial condition and results of operations.

We incurred operating losses for our self-operated retail pharmacies segment during the Track Record Period. If we continue to incur such losses in the future, our business, financial condition and results of operations may be materially and adversely affected.

For the years ended December 31, 2012, 2013 and 2014, we incurred operating losses of RMB1.7 million, RMB6.1 million and RMB5.0 million, respectively, for our self-operated retail pharmacies segment. Operating profit or loss for the self-operated retail pharmacies segment is calculated by deducting operating expenses, including rental costs, salaries and benefits for related personnel and depreciation and amortization expenses, from the segment gross profit. We incurred operating losses for the self-operated retail pharmacies segment during the Track Record Period primarily because (i) our Japanese-style cosmeceutical stores have relatively low gross profit margins as a result of the product portfolio they carry and they have high fixed costs because they are located in premium commercial areas where average rental costs are high, they have large store areas which require more fixtures and decorations as well as more rental expenses, and they have large sales teams; and (ii) our regular self-operated retail pharmacy stores located in Chengdu incurred operating losses during the Track Record Period primarily because (A) those stores are located in premium commercial areas with relatively high rental costs; and (B) certain government road construction projects restricted access to some of those stores since the beginning of 2013 and caused pedestrian traffic around them to decline. Further, our other retail pharmacy stores generally require a certain period of time to become profitable, as a store requires a ramp-up period to gradually establish a customer base and increase sales and gross profit to cover its operating expenses.

We cannot assure you that we will not continue to incur operating losses for our self-operated retail pharmacies segment in the future. We intend to use approximately 46.6% of the net proceeds from the Global Offering, or HK\$116.2 million, to acquire or establish additional self-operated retail pharmacy stores. We currently intend to acquire or establish 75 to 85 self-operated retail pharmacy stores in Sichuan, Hebei and Hubei provinces by the end of 2016. We expect that these additional stores will require a certain period time before they become profitable, and we may incur operating losses for our

RISK FACTORS

self-operated retail pharmacies segment during the ramp-up period of these additional stores. If we continue to incur such losses in the future, our business, financial condition and results of operations may be materially and adversely affected.

We may not have effective or sufficient control over our franchise retail pharmacy stores. Any breach of franchise agreements or any violation of relevant laws and regulations by our franchise retail pharmacy stores may have a negative impact on our reputation.

We distribute pharmaceutical and healthcare products to franchise retail pharmacy stores under our “Pa Shun” brand. During the Track Record Period, we generated RMB96.5 million, RMB148.2 million and RMB173.2 million in turnover from our franchise retail pharmacy stores for the years ended December 31, 2012, 2013 and 2014, respectively. We identify and select the franchisees in compliance with the requirements under relevant laws and regulations as well as our internal guidelines. We also enter into franchise agreements with our franchisees which require them to source from us the products specified in the franchise agreement, maintain all permits, licenses and certificates, recruit qualified professionals and implement our pricing policies. As of December 31, 2014, we had approximately 1,420 franchise retail pharmacy stores.

Our franchise retail pharmacy stores are not covered by the information systems that have been installed in our self-operated retail pharmacy stores. As a result, we may not accurately tally the inventory and retail sales data at our franchise retail pharmacy stores. In addition, while we specify the obligations of franchise retail pharmacy stores in our franchise agreements, we cannot assure you that the franchisees will source all pharmaceutical products from us for sale at the franchise retail pharmacy stores. Moreover, we may not be able to ensure their full compliance with relevant laws and regulations. If they fail to operate in accordance with our franchise agreements, or violate any relevant laws and regulations in PRC, our reputation, business, financial condition and results of operations may be adversely affected.

We rely on our Zhenghonghua embrocation (正紅花油) for a significant portion of our gross profit. Failure to maintain the profitability of this product may materially and adversely affect our business, financial condition and results of operations.

We rely on the sales of our Zhenghonghua embrocation for a significant portion of our gross profit. For each of the three years ended December 31, 2012, 2013 and 2014, our Zhenghonghua embrocation contributed over 30% of our gross profit. We expect that the sales of our Zhenghonghua embrocation will continue to contribute a substantial portion of our gross profit in the near future. As a result, our business will remain sensitive to the sales volume and selling price of our Zhenghonghua embrocation. The sales volume and pricing of our Zhenghonghua embrocation could be materially and adversely affected if our competitors lower the selling prices of their products or if they target their promotion and sales at our markets and customers. In the event that other pharmaceutical manufacturers enter into this product segment or produce and sell similar products, products having comparable or better efficacy or products which may be used as direct or indirect substitutes in the PRC market at prices comparable to or lower than our prices, we may be forced to reduce our prices to compete, which in turn may adversely affect our business, financial condition and results of operations.

RISK FACTORS

We may not be able to respond adequately and promptly to rapid changes in government regulation, treatment of diseases and customer preferences in the PRC pharmaceutical industry, which may adversely affect our business, financial condition and results of operations.

The pharmaceutical industry in China is subject to extensive government regulation and supervision. In recent years, the PRC government has introduced and implemented certain regulatory measures, and announced plans to implement additional rules and regulations with respect to the pharmaceutical industry, including those relating to: (i) changes in legislation or regulations governing the distribution, manufacturing or pricing of pharmaceutical products; (ii) additional quality control, licensing and certification requirements; (iii) changes in legislation or regulations governing the pricing, procurement, prescription and dispensing of essential and other medicines by public hospitals and other healthcare institutions; (iv) changes in governmental funding for individual healthcare and pharmaceutical services; and (v) changes in policies and regulatory measures regarding distribution to hospitals and other medical institutions in rural area and the tendering process for distributors. These measures may lead to significant changes in the PRC pharmaceutical industry, and could result in increased costs and lowered profit margins for participants of the pharmaceutical industry. The measures could also lead to decreases in the amount of our products and services purchased by our customers or the price which they are willing to pay for our products and services. In addition, the PRC government may adopt laws and regulations that reduce support or the level of healthcare services and benefits provided in China. We cannot assure you that we will be able to adapt to such changes, nor can we assure you that our business, financial condition and results of operations will not be adversely affected.

The PRC pharmaceutical industry is also characterized by rapid advances in science and technology and the emergence or mutation of viruses and bacteria that lead pharmaceutical manufacturers to discovering and developing innovative new medicines and other pharmaceutical products and treatments. Our future success depends on our ability to improve and diversify our product portfolio by identifying such trends, as well as securing sales and distribution agreements from pharmaceutical manufacturers and commercial suppliers for new and competitively priced pharmaceutical products that meet the requirements of a constantly changing market and are effective in treating new diseases and illnesses. We cannot assure you that we will be able to respond to emerging trends by improving our product portfolio and services or distributing new products in a timely fashion.

In addition to regulatory and industry changes, the preferences and purchasing trends of our customers with regard to pharmaceutical products are subject to rapid change. Our success depends on our ability to anticipate product procurement lead-time and customer demands, identify customer preferences and adapt our product selection to these preferences. We need to adjust our product availability, selection and inventory levels based on certain business requirements, sales trends and other market data. Furthermore, our product selection may not accurately reflect product life cycles, seasonality, back orders or customer preferences at any given time. We cannot assure you that we will be able to accurately respond to such changes in customer preferences and purchasing trends, and such failure may have an adverse impact on our business, financial condition and results of operations.

RISK FACTORS

Any changes to the products that are included in the National and Provincial Medical Insurance Drugs Catalogs could have a material and adverse effect on our business, financial condition and results of operations.

In the PRC, patients purchasing pharmaceutical products that are listed in the National and Provincial Medical Insurance Drugs Catalogs are entitled to reimbursement of all or a portion of their purchase costs from the social medical fund. Consequently, pharmaceutical products that are included in the National and Provincial Medical Insurance Drugs Catalogs are generally more popular and have higher sales than comparable products in the market.

The National and Provincial Medical Insurance Drugs Catalogs are subject to review by the relevant government authorities from time to time based on various factors, including treatment requirements, frequency of use, efficacy and price. We cannot assure you that the existing products we distribute that are currently admitted in the National and Provincial Medical Insurance Drugs Catalogs will continue to be included in the catalogs. The removal of products from the catalogs may significantly reduce our sales of such products. In addition, there is significant uncertainty regarding the insurance coverage and reimbursement of newly approved pharmaceutical products. Any non-inclusion of such new products in the National and Provincial Medical Insurance Drugs Catalogs may have a material and adverse effect on our business, financial condition and results of operations.

We may not be able to successfully identify acquisition targets or integrate any acquired businesses into our existing business.

We have successfully expanded our business operations through acquisitions and one of our strategies is to continue to pursue acquisitions and strategic alliances. We acquired Chunshengtang in November 2011 and Baixintang in December 2013 and expanded our self-operated retail pharmacies business significantly through these acquisitions. For details of the acquisitions, please refer to the section headed “History and Corporate Structure” in this prospectus.

Acquisitions involve a number of risks and uncertainties, including:

- inability to identify suitable acquisition targets;
- inability to complete acquisitions on commercially reasonable terms;
- the availability, terms and costs of financing required to fund acquisitions;
- inability to timely obtain necessary governmental approvals, third party consents and land use rights;
- potential unforeseen or hidden financial obligations and liabilities of acquired targets;
- failure to achieve the expected synergies arising from acquisitions, the intended objectives or benefits, or to generate sufficient turnover to recover the costs and expenses of an acquisition; and
- potential dilution of our earnings per share or decrease in our margins due to the lower profitability of acquired business.

RISK FACTORS

In addition to above general risks and uncertainties of acquisitions, we may experience difficulties in integrating the acquired businesses and personnel with ours due to differences in business models and cultures. We may have difficulties in retaining the key employees and customers of the acquired businesses and their expertise. Our management team's time and attention may be diverted from our existing businesses.

We cannot assure you that we will be successful in realizing all of the anticipated benefits in the acquisitions that we made or will make. The occurrence of any of the above may adversely affect our business, financial condition and results of operations.

Our turnover has been significantly dependent on sales in southwestern China, in particular Sichuan province.

We derive a majority of our turnover from southwestern China, in particular Sichuan province. For the years ended December 31, 2012, 2013 and 2014, our turnover derived from southwestern China amounted to RMB496.7 million, RMB588.4 million and RMB629.2 million, respectively, representing 69.8%, 74.1% and 74.3% of our total turnover for the same periods.

If our sales in southwestern China decline for any reason, our business, financial condition and results of operations could be materially and adversely affected. Our sales in southwestern China may be affected by a number of factors, many of which are beyond our control. Examples of such factors include changes in laws and regulations governing the pharmaceutical industry as promulgated by the national, provincial or local government, changes in local consumer preference and spending patterns, economic downturns in the relevant regions, natural disasters or social events.

Due to the concentration of the geographic coverage of our business, we may not be able to effectively manage increased costs or absorb potential losses resulting from adverse events in the geographic markets we operate in. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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

Our business development and expansion plans, as detailed in the sections headed "Business — Our Business Strategies" in this prospectus, require us to efficiently allocate our managerial, financial and administrative resources. We cannot guarantee that we will be able to complete our business development and expansion plans within budget and schedule, or that such plans will be successful. Our business development and expansion plans may be adversely affected by various factors, such as the availability of suitable regions and locations for expansion, the level of customer acceptance of our new business line and products, the availability of suitable suppliers and distributors in a newly-developed regional market, the ability to negotiate favorable terms with suppliers and distributors, the availability of adequate management and financial resources and any unforeseen legal impediments introduced by the PRC government. In addition, we believe that our future success depends on our ability to improve and diversify our product portfolio, as well as securing sales and distribution agreements from pharmaceutical manufacturers and distributors for new and competitively priced pharmaceutical products that meet the requirements of a constantly changing market and are effective in treating new diseases and illnesses.

RISK FACTORS

We cannot assure you that we will be able to respond to emerging trends by improving our product portfolio and services or distributing new products in a timely fashion. If there is any delay in the progress of our business development and expansion plans, or such plans fail to achieve the intended economic results or commercial viability, our competitive position in the market could be weakened, which in turn could materially and adversely affect our business, financial condition and results of operations.

We generally do not enter into long-term sales agreements with our customers, which exposes us to uncertainty and may have a negative impact on our results of operations.

We normally enter into one-year framework agreements with our customers other than franchisees, and those customers confirm the purchase amounts and prices with us through purchase orders. We cannot assure you that any of our customers will renew such framework agreements upon expiration or continue to place purchase orders with us in the future at the same level as in the current or prior periods, or at all. If any customer ceases to place or reduces purchase orders with us and we are not able to secure replacements for the lost customer or purchase orders in a timely manner or at all, our turnover and profitability for that financial period may be negatively impacted. Any unexpected cessation of, or substantial reduction in, the volume of orders from any of our major customers may have a material and adverse impact on our business, financial condition and results of operations.

If we are unable to procure an adequate supply of raw materials at acceptable prices and quality in a timely manner, our profitability may be negatively affected.

Our pharmaceutical manufacturing operations depend on our ability to obtain sufficient quantities of raw materials at acceptable prices and quality in a timely manner. The raw materials which we use primarily include methyl salicylate, turpentine and white camphor oil. The availability and price of the raw materials depend on a number of factors, many of which are beyond our control, including general economic conditions, demand and supply of raw materials in the market, and environmental and conservation regulations. The cost of raw materials incurred in our pharmaceutical manufacturing operations amounted to RMB37.6 million, RMB35.2 million and RMB46.3 million, and accounted for approximately 91.1%, 90.5% and 92.0% of our total costs of sales of pharmaceutical manufacturing for the years ended December 31, 2012, 2013 and 2014, respectively. For the years ended December 31, 2012, 2013 and 2014, we derived approximately 14.7%, 12.8% and 15.2% of our total turnover and approximately 51.6%, 43.8% and 45.3% of our total gross profit, respectively, from our pharmaceutical manufacturing operations. We cannot assure you that we will be able to secure sufficient supplies of these raw materials to satisfy the demand of our expanded or even our current production capacity, or that the prices for these raw materials will be reasonable. Our profit margin is, to a certain extent, dependent on our ability to pass the increase in raw materials costs to customers, and any lack of supply of raw materials or increase in costs that cannot be borne by our customers would materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

Delays, losses or damages in delivery by third-party logistics providers may adversely affect our reputation.

We rely on a number of third-party logistics providers for the transportation and delivery of pharmaceutical products to places outside the 200 km radius of our headquarters in Chengdu. The services provided by these logistics providers could be interrupted by various reasons beyond our control, including poor handling by logistics providers, transportation bottlenecks, adverse weather conditions, natural disasters, social unrest and labor strikes. Any of such events may result in loss of turnover and may materially and adversely affect our reputation, business, financial condition and results of operations.

We may be required to seek alternative premises for some of our owned or leased properties because we have not obtained the relevant title certificates or registered the relevant lease agreements.

As of the Latest Practicable Date, requisite building ownership certificates of certain properties which we owned or leased had not yet been obtained to prove the ownership, titles or rights to these properties as required under the relevant PRC laws and regulations and certain properties had been mortgaged to the bank before we lease such properties. The buildings for which we do not have building ownership certificates are mainly used as production base, representing approximately 100.0% of our total annual production capacity throughout the Track Record Period and generating approximately 51.6%, 43.8% and 45.3% of our gross profits for the three years ended December 31, 2012, 2013 and 2014. As a result, we may be required to cease using the above properties and suspend our production facilities located in the land. The leased buildings for which we have not received proof of ownership or that were mortgaged prior to lease are mainly used as premises of our self-operated retail pharmacy stores. As a result, we may be required to cease using the above properties and suspend the operations of the related self-operated retail pharmacy stores using such buildings as premises. In such an event, we would be required to relocate and it may incur additional costs. If we are required to relocate and are unable to find suitable alternative premises for our operations, our business may be materially and adversely affected. In addition, none of our lease agreements had not been registered. We may be subject to a fine up to RMB10,000 for each non-compliance of lease agreement.

We may be subject to fines imposed by the relevant government authorities for the delay in registration of our franchising business.

The Administrative Measures for Archival Filing of Commercial Franchises (商業特許經營備案管理辦法) came into force on May 1, 2007 (the “2007 Registration Measures”) and were replaced by the Administrative Measures for Archival Filing of Commercial Franchises (商業特許經營備案管理辦法) which became effective on February 1, 2012 (the “2012 Registration Measures”). The Regulations on the Administration of Commercial Franchising (商業特許經營管理條例) came into force on May 1, 2007 (the “Administration Regulations”).

Pursuant to the 2007 Registration Measures, which were applicable before February 1, 2012, franchisers which started business before May 1, 2007 shall register with the provincial department of commerce within one year since the enforcement of Administration Regulations. Chengdu Pashun Chain Store did not register with Sichuan Provincial Department of Commerce until November 1, 2010, which was not in compliance with the 2007 Registration Measures.

RISK FACTORS

Under the 2012 Registration Measures, if any changes occur to the following information of franchisers, franchisers shall apply to the provincial department of commerce for change of registration within 30 days from the date of occurrence of such changes: (i) the industry and commerce registration information; (ii) the operational resources; or (iii) the store network of the franchisees in the PRC. Chengdu Pashun Chain Store did not report its change of industrial and commercial registration information and change of franchisees in the PRC within 30 days from the date of occurrence of such changes, primarily because the system recording the changes was not available at Sichuan Provincial Department of Commerce, which was not in compliance with the 2012 Registration Measures.

Although Sichuan Provincial Department of Commerce has not imposed any fines or penalties on Chengdu Pashun Chain Store as of the Latest Practicable Date, we cannot assure you that the relevant regulatory authorities will not penalize us retroactively for such non-compliance. As advised by our PRC legal advisors, Shu Jin Law Firm, the maximum monetary fine for such non-compliance is approximately RMB100,000, and our Directors are of the view that such amount will not have any material adverse impact on our cash flow. However, such penalties, if imposed, may adversely affect our corporate image and reputation.

We cannot assure you that we will continue to receive the preferential tax treatment that we currently enjoy.

During the Track Record Period, Chengdu Pashun enjoyed a preferential enterprise income tax rate of 15% according to the confirmation issued by the National Tax Bureau of Wenjiang District, Chengdu. As provided in the Notice on the Issues of Tax Policies for Thorough Implementation of Western Development Strategy (關於深入實施西部大開發戰略有關稅收政策問題的通知) promulgated by Ministry of Finance of the People's Republic of China (中華人民共和國財政部), General Administration of Customs of the People's Republic of China (中華人民共和國海關總署) and the SAT on July 27, 2011, this preferential tax treatment is effective from January 1, 2011 through December 31, 2020.

PRC government authorities may amend or rescind existing preferential tax treatment policies. As such, we cannot assure you that we will meet all the conditions required for enjoying the preferential tax treatment, be able to continue to enjoy preferential income tax treatment, renew such preferential tax treatment upon expiration or receive other forms of preferential tax treatment in the future. If we fail to do so, our business, financial condition and results of operations may be materially and adversely affected.

Our customers may delay and/or default in their payments to us.

We generally grant our customers credit periods of up to 180 days. We may adjust our credit terms according to the customer's credit history. Our trade and commercial bills receivables turnover days for the years ended December 31, 2012, 2013 and 2014 were 64.9 days, 69.3 days and 84.7 days, respectively. If one or more of our larger customers were to become insolvent or otherwise unable to pay for the products supplied by us, our business, financial condition and results of operations would be materially and adversely affected.

As of December 31, 2014, of the total amount of trade and commercial bills receivables net of allowance for doubtful debts, RMB41.8 million had been outstanding for four to six months based on the invoice date (or date of revenue recognition, if earlier), and RMB9.1 million had been outstanding for over six months based on the invoice date (or date of revenue recognition, if earlier). The allowance for doubtful debts as of December 31, 2012, 2013 and 2014 was RMB7.5 million, RMB10.5 million and RMB9.3 million, respectively.

RISK FACTORS

Our liquidity and operational cash flows may be materially and adversely affected if the trade receivable cycles or collection periods lengthen or if we encounter a material increase in default of payment from customers. Should these events occur, we may be required to obtain working capital from other sources, such as third-party financing, in order to maintain our daily operations, and such financing from outside sources may not be available on terms that are favorable to us, or at all.

There is no assurance that our customers will meet their payment obligations on time or in full, or that our trade and bills receivables turnover days will not increase. Any inability on the part of our customers to settle or settle promptly the amounts due to us may adversely and materially affect our business, financial condition and results of operations.

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

Ensuring the quality of products manufactured or sold in the PRC is a principal goal of the PRC Government, and the pharmaceutical products are subject to strict product quality specifications. In recent years, the PRC Government is enhancing its supervision on quality and safety standards of the pharmaceutical industry. Our operations are also subject to safety standards and routine compliance checks. If the PRC Government determines that our products do not meet national standards in terms of their quality and safety, or that our operations do not meet the national standards or fail to comply with relevant laws and regulations, we could be subject to significant fines or be required to invest additional capital in carrying out necessary improvements to meet such standards, which could have a material adverse effect on our liquidity and profitability, and prevent us from implementing our future expansion and other business strategies.

Pursuant to the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法), the Product Quality Law of the PRC (中華人民共和國產品質量法), and the Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法), and other relevant laws and regulations, should our self-manufactured products lead to injury, death or property damage due to product defects, we may be subject to fines, suspension of operations, revocation of business licenses and GMP certificates, or in extreme situations, criminal liabilities, which could have a material adverse effect on our reputation and brand value, and in turn materially and adversely affect our business, financial condition and results of operations.

For the products sourced from other parties, should such products lead to injury, death or property damage due to product defects, we may be subject to compensation claim from consumers and we cannot assure you that we can recover the same from our suppliers or manufacturers. In addition, we cannot assure you the suppliers that we source products from have obtained all necessary licenses, permits and certificates, which could lead to fines and revocation of business license and GSP certificates, and in turn materially and adversely affect our business, financial condition and results of operations.

RISK FACTORS

We may not be able to adequately protect our intellectual property rights and industrial know-how or successfully defend against intellectual property infringement claims initiated by third parties, which could weaken our competitive position and adversely affect our operations.

We have certain trademarks registered in the PRC, details of which are set out in Appendix IV to this prospectus. Infringement of intellectual property rights by legal entities or individuals occurs frequently in the PRC. We cannot assure you that we will be able to prevent or deter infringement or other misappropriation of our intellectual property rights. In addition, we may not be able to detect unauthorized use or take appropriate and timely steps to enforce our intellectual property rights. Any infringement of our intellectual property rights could tarnish our reputation, weaken our competitive position and have a material adverse effect on our business, financial condition and results of operations.

In addition, we may receive claims brought against us by, or assert claims against, other parties involving disputes arising from intellectual property rights for our self-manufactured products or products sourced from other parties. If we are unable to resolve such claims through negotiations, we may face legal proceedings which may be costly, causing the efforts of our management and technical personnel to be diverted away from our business and adversely affecting our reputation, financial condition and results of operations. Moreover, if we do not succeed in these proceedings, we could lose our rights in, or be prohibited from, using such intellectual property in our business operations, and as a result, our business, financial condition and results of operations would be materially and adversely affected.

Our operations are subject to operating hazards that may affect our operations and may not be covered in whole or in part by our insurance policies.

Should any significant property damage, personal injury on one or more of our distribution centers or logistics facilities be destroyed or shut down due to accidents, natural disasters or similar events, our business may be adversely affected, potentially leading to a loss of assets, lawsuits or other forms of economic losses. Although we have not encountered any major accidents in the course of our operations during the Track Record Period, there is no assurance that we will be able to prevent accidents in the future. We have procured insurance coverage including insurance for our vehicles and property comprehensive insurance for our inventories. Further particulars on the insurance policies are set out in the section headed “Business — Insurance” in this prospectus. Consistent with customary practices in the PRC pharmaceutical industry, however, we do not have certain types of insurance, such as business interruption insurance, third party liability insurance for personal injury or environmental damage and product liability insurance. Moreover, we cannot obtain certain types of insurance at a reasonable cost, or at all. For example, insurance against damages from acts of war, terrorism or natural catastrophes is either unavailable or cost prohibitive. Any uninsured losses could have an adverse impact on our assets and resources, and, in turn, on our financial condition and results of operations.

RISK FACTORS

We may incur losses resulting from product liability, personal injury or wrongful death claims or product recalls.

Our pharmaceutical distribution, self-operated and franchise retail pharmacy stores and pharmaceutical production are exposed to risks inherent in the manufacturing, packaging, marketing and distribution of pharmaceutical and healthcare products, such as unsafe, ineffective or defective products, the improper filling of prescriptions, labelling of prescriptions and inadequacy of warnings and unintentional distribution of counterfeit medicines. In the event that the use or misuse of our products results in personal injury or death, product liability claims may be brought against us for damages. As a result, we may be subject to product recalls, and the PRC government may close down related operations.

A substantial claim or a substantial number of claims, if successful, would have a material adverse effect on our business, financial condition and results of operations. In the event of allegations that any of our products are harmful, we may experience reduced consumer demand for products distributed or manufactured by us or these products may be recalled from the market. Any claims against us or product recalls, regardless of merit, could materially and adversely affect our business and financial condition, because litigation related to those claims or product recalls would strain our financial resources in addition to diverting the time and attention of our management. If any claims against us prevail, we may incur monetary liabilities, and our reputation may be damaged. With respect to our distribution operations, we may have the rights under applicable PRC laws, rules and regulations to recover from the relevant manufacturer for compensation that we are required to make to our customers in connection with a product liability, personal injury or wrongful death claim if the manufacturer is responsible; however, we cannot assure you that we will be able to recover the relevant amounts, or at all.

Further, the applicable laws, rules and regulations in the PRC require in-store retail pharmacists to offer counseling, without additional charge, to our customers on medication, dosage, common side effects or potential negative effects and other information deemed significant by our in-store pharmacists. We may be liable for claims arising from such advice given by our in-store pharmacists, and our business, financial condition, results of operations and reputation may be adversely affected.

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

Certain pharmaceutical products distributed or sold in the PRC pharmaceutical market may be counterfeit, which means that they are manufactured without proper licenses or approvals and fraudulently mislabelled with respect to their content and/or manufacturer. Such counterfeit pharmaceutical products are generally sold at lower prices than the authentic pharmaceutical products due to their low production costs, and in some cases are very similar in appearance to the authentic pharmaceutical products. Counterfeit pharmaceutical products may or may not have the same chemical content as their authentic counterparts. The counterfeit pharmaceutical product regulation control and enforcement system in China is not able to completely eliminate production and sale of counterfeit pharmaceutical products.

RISK FACTORS

Any unintentional sale of counterfeit pharmaceutical products by us in our pharmaceutical distribution operations, or illegal sale of those counterfeits by others under our brand name with respect to the products in our manufacturing operations, especially if resulting in adverse side effects to consumers, may subject us to negative publicity, fines and other administrative penalties or even result in litigation against us. Moreover, the continued proliferation of counterfeit pharmaceutical products in recent years may reinforce the negative image of distributors and retailers among consumers in China, and may severely harm the reputation and brand name of companies like us. Furthermore, consumers may buy counterfeit pharmaceutical products that are in direct competition with the pharmaceutical products of our suppliers in our pharmaceutical distribution operations or with our own products in our manufacturing operations. As a result of these factors, the continued proliferation of counterfeit pharmaceutical products in China could have a material adverse effect on our business, financial condition, results of operations and prospects.

We rely on our key management personnel and key technical personnel whose unanticipated departure could have an adverse impact on our business.

Our success in implementing proposed plans and maintaining growth in our profitability is partly due to the continued service of our senior management team. We will require an increasing number of experienced and competent executives in the future to implement our growth plans. If we lose the services of any of our Company's key management members and are unable to recruit or retain personnel with equivalent qualifications, the management and growth of our business may be adversely affected. The unanticipated departure of any member of our senior management team, in particular Mr. Chen, our chairman and executive Director who possesses more than 25 years of experience in the pharmaceutical industry, or our failure to recruit a suitable replacement, may have a significant negative impact on our ability to manage our business effectively, and our business, financial condition and results of operations would be materially and adversely affected.

Our future success is further dependent upon our ability to attract and retain pharmacists and other qualified personnel for pharmaceutical logistics, sales and marketing who possess the necessary experience and expertise. Failure to recruit or retain any suitable qualified personnel could reduce our profitability and limit our ability to grow or fulfill our expansion plan as scheduled. In addition, competition for qualified personnel in the PRC may drive up our labor costs, which in turn will increase our costs of operations and affect our profitability.

Our existing manufacturing facilities are all located in Chengdu, Sichuan province. Any disruption at our manufacturing facilities could materially and adversely affect our business, financial condition and results of operations.

Our existing manufacturing facilities are all located in Chengdu, Sichuan province. Our production lines operate on a continuous and uninterrupted basis, except for temporary power cut, periodic inspection and maintenance work. Any disruption or significant damage to our manufacturing facilities arising from natural or other causes, such as floods, fires and earthquakes, could be costly and time-consuming to repair and could disrupt our operations. In such an event, we would be forced to seek alternative manufacturing sites and facilities, which we believe would be extremely difficult to locate and secure given that our manufacturing is highly specialized. Even if we are able to identify such alternative

RISK FACTORS

manufacturing sites, we may incur significant additional costs and may experience a disruption in the production process until those facilities are available and operational. Any disruption in our operations could have a material and adverse impact on our ability to produce sufficient quantities of products or require us to incur additional expenses in order to produce sufficient quantities of products, impair our ability to meet customers' demand, or cause customers to cancel purchase orders, any of which could materially and adversely affect our business, financial condition and results of operations.

Our business and operations require significant and continuous capital investment. Failure to raise sufficient capital in a timely manner may adversely affect our business and results of operations.

The pharmaceutical industry is capital intensive and requires significant expenditures for machinery, equipment, supporting infrastructure and environmental protection, as well as significant working capital in order to manage any increased production capacity. Pursuant to our business strategies, we may also incur capital expenditures for the acquisition of other companies. For the years ended December 31, 2012, 2013 and 2014, capital expenditures of our Group were approximately RMB4.8 million, RMB12.7 million and RMB30.7 million, respectively.

We cannot assure you that the cash generated from our operations will be sufficient to fund our development and expansion projects. The availability of external funding is subject to various factors beyond our control. If we are unable to obtain the additional funds which we need, we may not be able to fully fund the necessary capital expenditures to upgrade or purchase additional facilities and equipment, acquire target companies or implement our business strategies or expansion plan as discussed herein at all. Even if we are able to secure sufficient funding, we may not be able to obtain the funds under terms that are commercially favorable for us, which would increase our finance costs.

Any of the above could impede the implementation of our business strategies or expansion plan as discussed herein or prevent us from entering into transactions on commercially reasonable terms that would otherwise benefit our business, and could adversely affect our financial condition and results of operations.

Any information system failure or breakdown may cause interruptions to our business operations.

We have adopted information systems for our pharmaceutical distribution and self-operated retail pharmacy operations. Such systems enable us to receive real time sales, and inventory data, which allows us to monitor and keep detailed records of our procurement, pharmaceutical distribution activities and our self-operated retail pharmacy stores operation. We have also adopted an information system at our Japanese-style cosmeceutical stores, which enables us to gather information on end customer purchases, monitor customer preferences, make timely assessments regarding market trends and adjust our product mix accordingly.

Any failure or breakdown of any part of our information systems may interrupt our normal business operations, result in a slowdown in operational and management efficiency and adversely affect our distribution schedules and daily operations of our self-operated retail pharmacy stores. Although no failure or breakdown of any part of our information technology system has been reported during the Track Record Period, there is no guarantee that such failure or breakdown will not occur. In addition, any termination of service contract with the system providers may adversely affect our business, financial condition and results of operations.

RISK FACTORS

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

We take into account a number of factors for managing the inventory levels for our pharmaceutical distribution operations, including expected market demand, inventory holding costs, our product portfolio, the preferences and purchasing trends of our customers and availability and delivery time of products customers' requests. The volatile economic environment has made accurate projection of inventory levels increasingly challenging. Inventory levels in excess of customer demand may result in inventory write-downs, expiration of products or increase in inventory holding costs. We had no net write-down of our inventories to their net realizable value for the years ended December 31, 2012, 2013 and 2014. In contrast, if we underestimate consumer demand for our products or if our suppliers fail to provide products in a timely manner, we may experience inventory shortages. Such inventory shortages might result in unfilled customer orders and have a negative impact on our customer relationships. We cannot assure you that we will be able to maintain proper inventory levels for our pharmaceutical distribution operations and such failure may have an adverse effect on our business, financial condition and results of operations.

Our risk management measures and internal controls may not fully protect us against various risks inherent in our business.

We have established internal risk management measures to manage our risk exposures. These risk management measures are based upon historical behaviors and our experience in the industry. They may not be adequate or effective in managing our future risk exposures or protecting us against unidentified or unanticipated risks, which could be significantly greater than those indicated by our historical experience. Although we are continuously updating these risk management measures, they may fail to predict future risks due to rapid changes in the market and regulatory conditions, and new markets we enter.

Although we have established internal controls to ensure our risk management measures are adhered to by our employees in the business activities, our internal controls may not effectively prevent or detect any non-compliance of our policies and procedures, which may have a material and adverse effect on our business, financial condition and results of operations.

We have in the past identified certain deficiencies in the implementation of our internal control procedures as a result of departures from certain procedural and record-keeping requirements. There is no assurance that additional internal control deficiencies will not be identified in the future. In responses to these internal control deficiencies identified, we have adopted policies to remediate control processes and procedures in order to prevent a recurrence of the circumstances that resulted in such internal control deficiencies. There is no assurance that these steps will be successful in preventing the same or similar internal control deficiencies in the future. Failure to address our internal control and other deficiencies in a timely and effective manner may undermine the effectiveness of our risk management system, result in inaccuracies in our financial reporting, and may also increase the potential for financial losses and non-compliance with regulations. As a result, our asset quality, business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

Effective implementation of our risk management and internal controls also depends on our employees. Due to the large size of our operations and the wide geographical area our business covers, we cannot assure you that this implementation will not involve human error or mistakes, which may significantly undercut the effectiveness and performance of our risk management and internal controls, resulting in a material and adverse effect on our business, results of operations and financial condition.

The Controlling Shareholders may take actions that are not in, or may conflict with, the best interests of our public shareholders.

The Controlling Shareholders together will control the exercise of approximately 48.8% voting rights in the general meeting of our Company immediately after the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised). Therefore, the Controlling Shareholders will continue to be able to exercise controlling influence over our business through their ability to control actions which do not require the approval of independent Shareholders. As such, the Controlling Shareholders have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors, timing and amount of dividends, if any, and other significant corporate actions. The interests of our Controlling Shareholders may conflict with the interests of the other Shareholders. In case where the interest of the Controlling Shareholders conflict with those of public Shareholders, or if the Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interest of public Shareholders, such public Shareholders could be left in a disadvantageous position by such actions caused by the Controlling Shareholders and the price of our Shares could be adversely affected. This concentration of ownership may discourage, delay or prevent a change of control of our Company, which could deprive our Shareholders' opportunities to receive a premium for their Shares as part of a sale of our Company or our assets, and might reduce the price of our Shares. Due to our Controlling Shareholders' significant shareholding position in our Shares, these actions may be taken even if they are opposed by the other Shareholders, including those who subscribe for our Shares in the Global Offering.

We may be required to make additional contributions to social insurance and housing funds under PRC laws and regulations, which may adversely affect our business, financial condition and results of operations.

Under the relevant PRC laws and regulations, we are required to contribute to social insurance and housing funds for our employees. During the Track Record Period, we did not make adequate contributions to the social insurance and housing funds for some of our employees located in the PRC.

Pursuant to the Regulations on the Administration of Housing Fund, a local managing center of the housing fund may require us to make contribution to the employee housing fund up to a certain amount. We did not make the requisite contribution because we were unfamiliar with relevant laws and regulations and we did not engage a professional compliance adviser to oversee and monitor our compliance status. Up to the Latest Practicable Date, we had not received any notifications from the relevant authorities requiring our contribution to the housing fund. However, we cannot assure you that none of the local managing centers of the housing fund will order us to make such contribution in the future. The maximum

RISK FACTORS

amount of potential fine imposed by relevant authorities for such non-compliance is RMB50,000 and we may be required to pay all the outstanding housing fund by the relevant authorities. In addition, the Social Insurance Law of the PRC (the “**Social Insurance Law**”) became effective on July 1, 2011. The implementation of the Social Insurance Law could increase our staff costs and expenses associated with social insurance payable in the PRC. Moreover, we are in the process of complying with the relevant requirements under the Social Insurance Law. If any authority requires us to pay the outstanding housing fund and social insurance in full, it may adversely affect our business, financial condition and results of operations.

We fully rectified our historical non-compliance regarding social insurance and housing fund in December 2014. Our Directors do not believe the historical non-compliance relating to housing and social insurance funds would have any material adverse impact on our Group as a whole because (i) our PRC legal advisers, Shu Jin Law Firm, are of opinion that the possibility of PRC government authorities ordering us to make the outstanding housing fund contribution within a given period or to pay any fine, or applying to people’s court for mandatory enforcement of any such order to pay outstanding housing funds, is relatively low; and (ii) we have received written confirmation from the Chengdu Administration Bureau of Social Insurance (成都市社會保險事業管理局) that we will not be required to make contribution for the unpaid social insurance in respect of our major subsidiaries. Our reporting accountants concur with the above view of our Directors.

We cannot assure you that we will not be subject to any order to rectify our historical non-compliance in the future, nor can we assure you that there will not be any employee complaints against us regarding the payment of the social insurance and housing funds us or that we will not receive any claims with respect to the social insurance and housing fund contributions under PRC laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations by the PRC government or relevant local authorities.

RISKS RELATING TO OUR INDUSTRY

The PRC pharmaceutical industry is highly regulated, and the regulatory framework, requirements and enforcement trends may change from time to time. If we are not able to respond promptly to such changes, our business may be affected.

The pharmaceutical industry in China is highly regulated. We are governed by various local, regional and national regulatory regimes in all aspects of our operations, including permits, licenses and certifications required for pharmaceutical manufacturers, distributors and retailers. We cannot assure you that the legal framework, licensing and certification requirements and enforcement trends in the pharmaceutical industry will not change, or that we will be successful in responding to such changes. Such changes may result in increased costs of compliance and operational delays in bringing non-compliance into compliance, which would adversely affect our business, financial condition and results of operations.

RISK FACTORS

All pharmaceutical manufacturers, distributors and retailers in the PRC are required to obtain certain permits, licenses and certifications from PRC governmental authorities. We have obtained permits, Pharmaceutical Manufacturing Permits (藥品生產許可證) and GMP certifications medicine approval documents required for pharmaceutical manufacturing. We have also obtained permits, Pharmaceutical Operation Permits (藥品經營許可證) and GSP certifications for the distribution and retail of pharmaceutical products. These permits, licenses and certifications held by us are generally valid for a maximum period of five years and subject to renewal and reassessment by the relevant PRC government authorities and the standards of such renewal or reassessment may change from time to time. We intend to apply for the renewal of these permits, licenses and certifications as required by applicable laws and regulations. Any failure by us to obtain or renew all licenses, permits and certifications necessary to carry on our business at any time could have a material adverse effect on our business, financial condition and results of operations. Furthermore, if the interpretation or implementation of existing laws and regulations changes or new regulations come into effect requiring us to obtain any additional permits, licenses or certifications that were previously not required, we cannot assure you that we will be able to successfully obtain such permits, licenses or certifications, which would adversely affect our business, financial condition and results of operations.

The GSP was newly amended and became effective on June 1, 2013 (the “new GSP”). Pursuant to the new GSP, the principals in charge of product quality and the principals of quality control departments of pharmaceutical wholesalers and the legal representatives or principals of pharmaceutical retailers are required to have licensed pharmacist qualifications. In addition, pharmaceutical retailers must have licensed pharmacists at a respective pharmacy to review prescription and provide guidance on drug use. Once the current Pharmaceutical Operation Permits or GSP certificate of a retailer or wholesaler expires, the competent food and drug administration authority will inspect the retail or wholesale operator based on the newly revised GSP standards. All drugs operation enterprises must comply with the requirements under the newly revised standards of GSP prior to December 31, 2015. As the rules relating to the implementation of new GSP have not been promulgated, pharmaceutical retailers and wholesalers should comply with local requirements adopted by local food and drug administration authorities in the transition period. We do not know when the GSP rules implementation would be promulgated and we cannot assure you that we will be able to renew all of our Pharmaceutical Operation Permits and GSP certificates upon expiration. Nor can we assure you that our licensed pharmacists will be able to renew their licenses upon expiration or our pharmacists will be able to obtain licenses. Any failure by us to renew Pharmaceutical Operation Permits and GSP certificates or by our licensed pharmacists to renew their licenses or by our pharmacists to obtain licenses could have a material adverse effect on our business, financial condition and results of operations.

In addition, during the Track Record Period, we generated a portion of our turnover from rural distribution. We are required to go through tender process organized by relevant government authorities before we conduct rural distribution. For further information on the tender process, please see the section headed “Regulations — The Rural Drug Distribution” in this prospectus. If the government policy regarding rural distribution or the tender process change, we cannot assure you that we will be able to respond sufficiently and promptly to the changes and nor can we assure you that we will successfully win bids in the tender process. As a result, we may lose the turnover generated from rural distribution, which would have a material and adverse effect on our business, financial condition and results of operations.

RISK FACTORS

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

In our pharmaceutical distribution, retail pharmacy and other business operations, we are subject to PRC laws and regulations relating to healthcare fraud and abuse. We are subject to risks in relation to actions taken by us, our employees or our affiliates that constitute violations of the PRC anti-corruption laws. Failure to comply with these measures or to effectively manage our employees and affiliates could have a material adverse impact on our reputation, results of operations and business prospects.

In the pharmaceutical industry, corrupt practices include, among others, acceptance of kickbacks, bribes or other illegal gains or benefits by pharmacies, hospitals and medical practitioners from pharmaceutical manufacturers and distributors in connection with the prescription of certain pharmaceutical products. If we, our employees or affiliates violate these laws, rules or regulations, we could be required to pay damages or fines. In the case of our distribution and manufacturing operations, the products involved may be seized and our operations may be suspended, which could materially and adversely affect our business, financial condition and results of operations. Actions by PRC regulatory authorities or the courts to provide an interpretation of PRC laws and regulations that differs from our own or to adopt additional anti-corruption laws and regulations could also require us to make alterations to our operations. Our reputation and our sales activities could be adversely affected if we become the target of any negative publicity as a result of actions taken by us, our employees or affiliates.

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

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

Our growth relies in part on the development of the PRC pharmaceutical industry. If China's healthcare reform plan does not result in the anticipated growth of the PRC pharmaceutical industry within the expected timeframe, our business prospects may be adversely affected.

On March 18, 2009, the PRC government announced that it expected to spend approximately RMB850.0 billion on healthcare reform in the PRC in the next three years and highlighted several focus areas, including, among others, (i) promoting basic medical insurance system; (ii) preliminarily establishing the national essential drugs system and listing all of the essential drugs in the National Medical Insurance Catalog; (iii) improving the basic medical system with an emphasis on the medical

RISK FACTORS

institutions in rural areas; (iv) promoting public medical services; and (v) reforming public hospitals. On March 14, 2012, the PRC Government announced its further steps on health reform in the PRC in the next three years, which primarily focused on further establishing the basic medical system and essential drugs system, including, among others, (i) optimizing the National List of Essential Drugs; and (ii) regulating the essential drugs purchase system. While such reform is expected to bring positive effects to the PRC pharmaceutical industry, there may be negative effects as follows:

- executive risk: the anticipated spending may be slower and it may be more time consuming and may require larger amount of funding than it was announced;
- sufficiency of funding: the budget for the national health reform shall require a significant amount to be financed by local government;
- reduction in prices: centralized procurement through National List of Essential Drugs may lead to reduction in prices of drugs but may be compensated by increased sale volume; and
- favoring larger companies: such reform may favor larger pharmaceutical companies with more pharmaceutical products and resources in comparison with smaller companies.

Our growth relies in part on the development of the PRC pharmaceutical industry. Although the healthcare reform plan is expected to benefit our business, the full effect of the healthcare reform plan on our operations is unclear, and our business may not benefit as much as we expect.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the economic and political environment and the economic regulations and policies in the PRC may adversely affect our business operations and financial results.

The PRC's economy differs from that of most countries with respect to its structure, government involvement, growth rate, level of development, capital reinvestment, resource allocation, rate of inflation and balance of payments position. The PRC's economy has been transitioning from a planned economy to a more market-oriented economy. However, the PRC government continues to retain a major role in industrial output (a majority of which remains state-owned) and in the allocation of resources, production, pricing and management. There can be no assurance that the PRC government will continue to pursue its current economic reform policies, that such policies will continue to successfully create economic growth or that such policies, successful or unsuccessful, will have a favorable impact on us. Furthermore, we may not be able to capitalize on the PRC's economic reform measures consistently.

During the Track Record Period, we derived all of our turnover from sales in the PRC market, and we anticipate that turnovers from sales of our products in the PRC will continue to represent a substantial proportion of our total turnover in the near future. Our operations, financial condition and results of operations could be adversely affected by changes in political, economic and social conditions or relevant government policies, such as changes in laws and regulations (or the interpretations thereof), measures which might be introduced to control inflation, changes in the rate or method of taxation, additional restrictions on currency conversion and additional import restrictions. Furthermore, a significant portion of the PRC's economic activities is currently export-driven and is thus affected by the economic development of its principal trading partners and by the economies of other export-driven nations.

RISK FACTORS

The PRC legal system is not yet fully developed and has inherent uncertainties that may limit the legal protection available to us and our shareholders.

The PRC's legal system is based on written statutes and the interpretations by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會). Prior court decisions may be referenced, but have limited use as precedents. In 1979, the PRC government began developing a comprehensive commercial law system. Since then, considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, commerce, corporate organization and governance, taxation and trade. However, the PRC's legal system remains incomplete. Furthermore, as the existing laws and regulations are relatively new, and due to the limited volume of published cases as well as their non-precedential nature, interpretation and enforcement of these laws and regulations are sometimes uncertain and sporadic, and, as a result, it may be difficult to obtain swift and equitable enforcement or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, the interpretation of laws and regulations may be subject to government policies which change the interpretation to reflect domestic political factors. We cannot predict the effect of future developments in the legal system in the PRC, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to our Group and our shareholders.

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

Pursuant to the EIT Law enacted on March 16, 2007 and the Implementation Regulations of Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例) enacted on December 6, 2007 (collectively the "EIT Laws"), both of which took effect on January 1, 2008, a uniform tax rate of 25% is adopted for all enterprises, including foreign-invested enterprises, and revokes many of the previous tax exemptions, reductions and preferential treatments which were applicable to foreign-invested enterprises.

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

In addition, under the EIT Laws, PRC withholding income tax at the rate of 10% is applicable to dividends for earnings accumulated since January 1, 2008 payable by a PRC resident enterprise to investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent that such dividends have their sources within the PRC, unless it is entitled to reduction or elimination of such tax, such as by tax treaties or

RISK FACTORS

agreements. According to the Agreement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), dividends paid by a foreign-invested enterprise to its shareholders in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interest in the PRC enterprise. If our offshore companies are deemed PRC resident enterprises, it is unclear whether the dividends we pay with respect to the Shares may be treated as income derived from sources within the PRC and be subject to PRC taxes. If we are required under the EIT Laws to withhold PRC income taxes on our dividends payable to our foreign shareholders, the value of your investment in the Shares may be materially and adversely affected.

However, on October 27, 2009, the SAT, promulgated the Circular on How to Understand and Recognize the “Beneficial Owner” in Tax Treaties (關於如何理解和認定稅收協定中“受益所有人”的通知), or “**Circular 601**”. Circular 601 clarifies that a beneficial owner is a person having actual operations and this person could be an individual, a company or any other entity. Circular 601 expressly excludes a “conduit company” that is established for the purposes of tax avoidance and dividend transfers and is not engaged in actual operations such as manufacturing, sales and management, from being a beneficial owner. It is still unclear how Circular 601 is being implemented in practice by the SAT or its local counterparts.

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

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

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit our ability to use the proceeds of the Global Offering to make additional capital contributions or loans to our PRC operating businesses.

Any capital contributions or loans that we, as an offshore company, make to our PRC operating businesses are subject to PRC regulations. For example, generally any of our loans to our PRC foreign invested subsidiaries cannot exceed the difference between the total amount of investment which our PRC operating businesses are approved to make under relevant PRC laws and their respective registered capital, and must be registered with the local branch of the SAFE as a procedural matter. In addition, our capital contributions to our PRC operating businesses are subject to the approval of the local department of the MOFCOM and the local administration of SAIC and other relevant local authorities. Capital acquired through foreign exchange settlement of the capital of a foreign-invested enterprise must be spent within the business scope approved by authorities, and should not be used in domestic equity investment,

RISK FACTORS

except otherwise stipulated. We have contacted Jinniu District Investment Promotion Bureau* (金牛區投資促進局), the local department of the MOFCOM, State Administration of Foreign Exchange Sichuan Branch* (國家外匯管理局四川分局) in Chengdu City, the local branch of the SAFE, and Chengdu Administration for Industry and Commerce* (成都市工商行政管理局), the local administration of SAIC and were informed that there should be no major obstacles for us to obtain the approvals for the capital contributions or loans. We have commenced to increase the total investment of our Chengdu Pashun as of the Latest Practicable Date. However, we cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions, provide loans to our PRC operating businesses or fund their operations may be adversely affected, which could adversely affect their liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments.

Difficulties may arise in effecting service of legal process and enforcing judgments against us, our Directors or management members residing in the PRC.

Our Company is incorporated in the Cayman Islands. Substantially all of our Directors are residents of the PRC. Our Company is a holding company, and a substantial proportion of the assets of our operating subsidiaries and most of their directors are located within the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC or to enforce against us or them in the PRC any judgments obtained from non-PRC courts.

The PRC does not have treaties providing for the reciprocal enforcement of judgments of courts with Japan, the United Kingdom, the United States or most other developed countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgment. Accordingly, it may be difficult to secure recognition and enforcement in the PRC for court judgments obtained in other jurisdictions and to access our assets in China in order to enforce judgment awards entered against us outside of China. As a result, it may be difficult for you to enforce against us, or our Directors in the PRC, any judgments obtained from non-PRC courts.

In addition, although we will be subject to the Listing Rules and the Takeovers Code upon the Listing of our Shares on the Stock Exchange, holders of our Shares will be unable to bring actions on the basis of violations of the Listing Rules and will need to rely on the Stock Exchange to enforce its rules.

Furthermore, the Takeovers Code does not have the force of law and provides only standards of commercial conduct considered acceptable for share repurchases and takeover and merger transactions in Hong Kong.

We face uncertainty from the Circular on Strengthening the Administration of Enterprise Income Tax on Non-PRC Resident Enterprises' Share Transfers (關於加強非居民企業股權轉讓所得企業稅管理的通知) ("SAT Circular No. 698") issued by the SAT.

Pursuant to SAT Circular No. 698 which became effective on December 10, 2009, except for the purchase and sale of equity through a public securities market, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas holding company (an "**Indirect Transfer**"), and the overseas holding company is located in a tax jurisdiction that has an effective tax rate of less than 12.5% or does not impose tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. Using a "substance over form" approach, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a

RISK FACTORS

reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC tax at a rate of up to 10%. SAT Circular No. 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is uncertainty as to the application of SAT Circular No. 698. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction to request information from a wide range of foreign entities having no direct link to China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise remain unclear. In addition, there are no formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. SAT Circular No. 698 may be determined by the tax authorities to be applicable to our restructuring or Pre-listing Investments where non-resident investors were involved, if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose or for any other reason. As a result, we may be taxed under SAT Circular No. 698 and may be required to expend valuable resources to comply with SAT Circular No. 698, which may have a material adverse effect on our business, results of operations and financial conditions.

Our Company is a holding company that relies on dividend payments from its subsidiaries for funding.

Our Company is a holding company incorporated in the Cayman Islands and our operations are conducted through our subsidiaries in Hong Kong and the PRC. Therefore, the availability of funds to pay dividends to the Shareholders depends on dividends received from our subsidiaries. If our subsidiaries incur any debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to our Company, and our Company’s ability to pay dividends or other distributions and to repay our indebtedness will be restricted. In addition, the ability of our subsidiaries in the PRC to pay dividends to their shareholders is subject to the requirements of PRC law. PRC laws and regulations permit payment of dividends out of accumulated profits as determined in accordance with PRC accounting standards and regulations. As a result, if our subsidiaries in the PRC incur losses, such losses may impair their ability to pay dividends or other distributions to us, which would restrict our ability to distribute dividends and to repay our indebtedness. Our PRC subsidiaries are required to make monthly contributions to the social security plan maintained for their employees, consisting of pension benefits, personal injury insurance, maternity insurance and medical and unemployment benefits. In addition, each of our PRC subsidiaries is also required to set aside at least 10% of its after-tax profits based on PRC accounting standards each year to its statutory common reserve fund until the cumulative amount of such fund reaches 50% of its registered capital. We cannot assure you that our subsidiaries will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to enable us to declare dividends.

RISK FACTORS

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Sole Global Coordinator on behalf of the Underwriters and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for the listing of, and the permission to deal in, our Shares on the Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our turnover, earnings and cash flows or any other developments of our Company may affect the volume and price at which our Shares will be traded.

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

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. There will be 1,000,000,000 Shares outstanding immediately following the Global Offering, assuming that the Underwriters do not exercise their Over-allotment Option and no outstanding stock options were exercised prior to the Latest Practicable Date. We and certain of our Shareholders, subject to certain exceptions, have agreed to a lock-up arrangement with the Underwriters until six months after the date of this prospectus, but the Underwriters may release these securities from these restrictions at any time and such Shares will be freely tradable after the expiry of the lock-up period. Shares which are not subject to a lock-up arrangement represent approximately 28.75% of the total issued share capital immediately following the Global Offering (assuming no exercise of the Over-allotment Option) and will be freely tradable immediately following the Global Offering.

The trading price of our Shares may be volatile.

The price at which the Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future turnovers and cost structures such as the views of independent research analysts, if any;
- the present state of our development; and
- the valuation of publicly traded companies that are engaged in business activities similar to ours.

RISK FACTORS

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

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

We believe that our current cash and cash equivalents, anticipated cash flows from operations and the proceeds from the Global Offering will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments relating to our existing operations, acquisitions or strategic alliances. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares. Alternatively, if we meet such funding requirements by way of additional debt financing, we may have restrictions placed on us through such debt financing arrangements which may:

- limit our ability to pay dividends or require us to seek consent prior to the payment of dividends;
- require us to dedicate a substantial portion of our cash flows from operations to repay our debt, thereby reducing the availability of our cash flows to fund capital expenditures, working capital requirements and other general corporate needs; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

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

The Offer Price of our Shares is higher than our net tangible assets value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience further dilution in their shareholding percentage if we issue additional Shares in the future at a price which is lower than our net tangible assets value per Share.

Our Share price may decline if our performance fails to meet market expectations for a particular period.

There can be no assurance that our results of operations will meet the expectations of market analysis or our investors. There may be a decline in our Share price if we fail to meet their expectations.

Investors should not place undue reliance on certain statistics, facts and other information contained in this prospectus with respect to the PRC, the PRC economy and the PRC pharmaceutical industry derived from third party research reports.

Certain statistics, facts and other information in this prospectus relating to the PRC, the PRC economy and the PRC pharmaceutical industry are derived from various official government and/or other

RISK FACTORS

research agency sources that we believe to be appropriate sources for such information. The Sole Sponsor and our Directors have taken reasonable care in extracting and reproducing such information and statistics derived from official government publications and/or studies from other research agencies and have no reason to believe that such information is false or misleading. These facts and statistics from government and/or other research agencies have not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriters or any of their respective directors, affiliates or advisors and therefore, we make no representation as to the accuracy of such facts and statistics from government and/or other research agencies, which may not be consistent with other information compiled within or outside the relevant jurisdiction and may not be complete or up-to-date. Due to possible flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the facts and statistics from government and/or other research agencies contained herein may be inaccurate or may not be comparable from period to period or to statistics from government and/or other research agencies produced for other economies and should not be unduly relied upon. Furthermore, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. As such, prospective investors should consider carefully how much weight or importance they should attach to or place on such facts or statistics and should not place undue reliance on any of such information and statistics.

Forward-looking information may prove inaccurate.

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

Investors should read the entire prospectus carefully and we strongly caution investors not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering, certain of which may not be consistent with information contained herein.

Prior to the publication of this prospectus, there had been press and media coverage regarding us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of such information about us and the Global Offering. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained on this prospectus is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

THE HONG KONG PUBLIC OFFER AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offer. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms contain all the terms and conditions of the Hong Kong Public Offer.

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information or make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Sole Lead Manager, any of the Underwriters, and any of their respective directors, agents, employees or advisors or any other person or party involved in the Global Offering.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as of any subsequent time.

RESTRICTIONS ON THE OFFER AND SALE OF THE OFFER SHARES

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

LISTING

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering, and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on Friday, June 19, 2015.

No part of our Share or loan capital is listed on or dealt in any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the approval for listing of, and permission to deal in, the Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transaction between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt to the taxation implications in relation to subscribing for, purchasing, holding or disposing of, and dealing in our Shares (or exercising rights attached thereto). None of our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Sole Lead Manager, any of the Underwriters, or any of their respective directors, agents, employees or advisors, or any other person or party involved in the Global Offering accept any responsibility for the tax affairs, or liabilities of, any person resulting from the subscription for, purchase, holding or disposing of, dealing in our Shares, or the exercise of any rights in relation to our Shares.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal registrar, Codan Trust Company (Cayman) Limited in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar in Hong Kong, Tricor Investor Services Limited. All Shares issued by us pursuant to applications made in the Hong Kong Public Offer will be registered with our Hong Kong Share Registrar in Hong Kong.

Dealings in the Shares registered on our Company's Hong Kong register of members will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STABILIZATION AND OVER-ALLOTMENT OPTION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the Offer Price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilizing manager, or its affiliates or any person acting for it, may over-allocate or effect transactions with a view to stabilizing or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the commencement of trading in the Shares on the Stock Exchange. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

In connection with the International Placing, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

Further details of the Over-allotment Option and stabilization are set out in “Structure of the Global Offering — Over-allotment Option” and “Structure of the Global Offering — Stabilization” in this prospectus.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Hong Kong Public Offer, the International Placing and the Global Offering, including its conditions, are set out in “Structure of the Global Offering” in this prospectus.

CURRENCY TRANSLATIONS

Solely for your convenience, this prospectus contains translations of certain RMB amounts into HK\$ as well as RMB amounts and HK\$ amounts into US\$ at specified rates.

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

ROUNDING

Any discrepancies in any table between totals and sums of individual amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Further information of our Directors is disclosed in the section headed “Directors and Senior Management”.

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Chen Yenfei or Mr. Chen Yen Fei (陳燕飛先生)	No. 29, Wu Huan Da Dao Dongxihu District, Wuhan Hubei Province PRC	Chinese
Mr. Su Si (蘇肆先生)	#13-1-201 No. 318, Shu Hui Road Qing Yang District, Chengdu Sichuan Province PRC	Chinese
Mr. Shen Shun (沈順先生)	Room 1501, 4th Building No. 3 Tonghuimen Road, Chengdu Sichuan Province PRC	Chinese
Mr. Zhou Jian (周建先生)	Room 201, Unit 1, 19th Building No. 89 Jiaogui Road Jinniu District, Chengdu Sichuan Province PRC	Chinese
<i>Non-executive Directors</i>		
Mr. Li Ho Tan	Room 104, Block 30 Heng Fa Chuen Chai Wan, Hong Kong	Chinese
Mr. Masahiro Honna (本名正博先生)	Flat F, 19/F, Block 1 The Merton, 38 New Praya Kennedy Town, Hong Kong	Japanese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
<i>Independent non-executive Directors</i>		
Mr. Liu Liangzhong (劉良忠先生)	Room 702, Block 23 No. 68 Xue Fu South Road Changqing Garden Street Dongxihu District, Wuhan Hubei Province PRC	Chinese
Mr. Wong Tak Shing (黃德盛先生)	Flat A, 2/F, Tung Tai Building 122 Shau Kei Wan Main Street East Shau Kei Wan, Hong Kong	British
Mr. Min Feng (閔鋒先生)	No. 509–201 Luoyu Road Hongshan District, Wuhan Hubei Province PRC	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	China Everbright Capital Limited 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong
Sole Global Coordinator, Sole Bookrunner, Sole Lead Manager	China Everbright Securities (HK) Limited 36/F, Far East Finance Centre 16 Harcourt Road Hong Kong
Legal advisors to our Company	<i>As to Hong Kong law:</i> Orrick, Herrington & Sutcliffe 43/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong <i>As to PRC law:</i> Shu Jin Law Firm 12/F, TaiPing Finance Tower Yitian Road 6001, Futian District Shenzhen 518017 PRC

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<p><i>As to Cayman Islands law:</i> Conyers Dill & Pearman Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands</p>
Legal advisors to the Sole Sponsor and the Underwriters	<p><i>As to Hong Kong law:</i> Sidley Austin 39/F Two International Finance Centre Central Hong Kong</p> <p><i>As to PRC law:</i> Commerce & Finance Law Offices 6/F, NCI Tower A12 Jianguomenwai Avenue Beijing 100022 PRC</p>
Compliance Adviser	<p>China Everbright Capital Limited 17/F, Far East Finance Centre 16 Harcourt Road Hong Kong</p>
Auditors and reporting accountants	<p>Crowe Horwath (HK) CPA Limited 9/F, Leighton Centre 77 Leighton Road Causeway Bay Hong Kong</p>
Valuers	<p>Savills Valuation and Professional Services Limited 23/F, Two Exchange Square Central, Hong Kong</p>
Industry analysts	<p>China Southern Medicine Economic Research Institution of China Food and Drug Administration Room 526, 5/F West Tower No. 753, Dong Feng Dong Road Yuexiu District Guangzhou, PRC</p>
Receiving bank	<p>Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road, Kowloon Hong Kong</p>

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P. O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	Flat 1907B, 19/F., Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Principal place of business in the PRC	Building C, Lan Hai Tian Di Zhenxing Road, Yingbin Avenue Jinniu District Chengdu Sichuan Province PRC
Company's website	<u>http://www.pashun.com.cn</u> <i>(information contained in this website does not form part of this prospectus)</i>
Joint Company Secretaries	Mr. Pang, Peter Chun Ming <i>CPA (California Board of Accountancy), CFA</i> Flat 31B, Block 1, Florient Rise 38 Cherry Street, Kowloon Hong Kong Mr. Tsoi, Yuen Hoi <i>HKICPA, ACCA</i> Room 1001, Harvest Building 29-37 Wing Kut Street Central, Hong Kong
Authorized representatives	Mr. Pang, Peter Chun Ming Flat 31B, Block 1, Florient Rise 38 Cherry Street, Kowloon Hong Kong Mr. Chen Yenfei No. 29 Wu Huan Da Dao Dongxihu District, Wuhan City Hubei Province PRC
Audit committee	Mr. Liu Liangzhong <i>(Chairman)</i> Mr. Min Feng Mr. Wong Tak Shing

CORPORATE INFORMATION

Remuneration committee	Mr. Liu Liangzhong (<i>Chairman</i>) Mr. Chen Yenfei Mr. Wong Tak Shing
Nomination committee	Mr. Chen Yenfei (<i>Chairman</i>) Mr. Min Feng Mr. Liu Liangzhong
Corporate governance committee	Mr. Chen Yenfei (<i>Chairman</i>) Mr. Min Feng Mr. Zhou Jian
Principal banks	China Merchants Bank Co., Ltd. Kehua Road Branch Yatai Square No. 58 Kehua North Road Wuhou District Chengdu, Sichuan Province PRC China Zheshang Bank Co., Ltd. Chengdu Branch No. 39 Ximian Bridge Street Chengdu, Sichuan Province PRC
Principal share registrar and transfer office	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong share registrar and transfer office	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong

INDUSTRY OVERVIEW

This and other sections of this prospectus contain information relating to the PRC economy and the industry in which we operate. The information and statistics contained in this section have been derived partly from publicly available government and official sources. Certain information and statistics set forth in this section have been extracted from a market research report by NFS, an independent market research agency, which we commissioned. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information or statistics is false or misleading in any material respect or that any fact has been omitted that would render such information or statistics false or misleading in any material respect. Such information and statistics have not been independently verified by us, the Sole Global Coordinator, Sole Sponsor and Sole Bookrunner, Sole Lead Manager, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to their correctness or accuracy. Accordingly, you should not place undue reliance on such information or statistics.

SOURCES OF INFORMATION

About NFS

NFS, a research institute affiliated with the CFDA, conducts research and studies on the pharmaceutical distribution, pharmaceutical manufacturing and pharmaceutical retail industries in China. The information disclosed in this prospectus from NFS is extracted from a research study commissioned by us for a fee of RMB477,000 and is disclosed with the consent of NFS. The NFS study is conducted through extrapolation of data automatically collected through point-of-sale terminals that are covered by NFS's online monitoring system and verification based on interviews of experts in the pharmaceutical industry. The bases and assumptions for the projections in the NFS report include the following: (i) the PRC economy is assumed to maintain steady growth across the forecast period; and (ii) it is assumed that there is no external shock such as natural disasters or the wide outbreak of diseases to affect the demand and supply of pharmaceutical products during the forecast period.

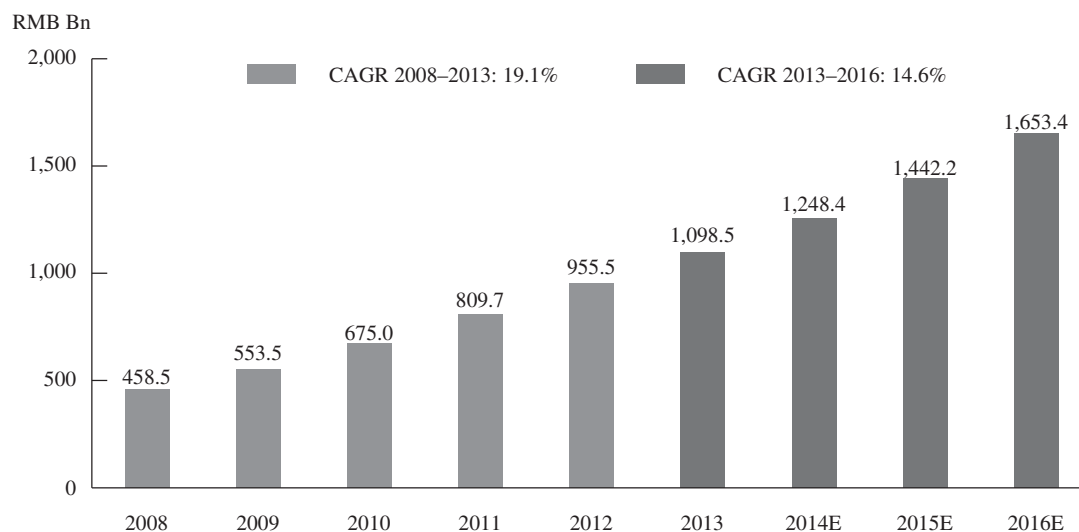
THE PHARMACEUTICAL INDUSTRY IN CHINA

We operate in China's large and fast growing pharmaceutical industry. We believe that the continual growth of the pharmaceutical industry in China is driven by a combination of favorable socioeconomic factors, including increased disposable income and healthcare spending in China, the PRC government's policy reform and support regarding healthcare spending, the aging population and continuing urbanization in China.

INDUSTRY OVERVIEW

Industry Overview

China's pharmaceutical industry has experienced rapid growth during the past five years. According to NFS, the total sales of the pharmaceutical products, which includes sales of pharmaceutical products from hospitals, clinics, health centers and retail pharmacies to consumers, increased from RMB458.5 billion in 2008 to RMB1,098.5 billion in 2013, representing a CAGR of 19.1%. Furthermore, the total sales of pharmaceutical products are expected to grow at a CAGR of 14.6% from 2013 to 2016 and reach RMB1,653.4 billion in 2016. The chart below sets forth the historical and projected size of the PRC pharmaceutical market in terms of total sales from 2008 to 2016.



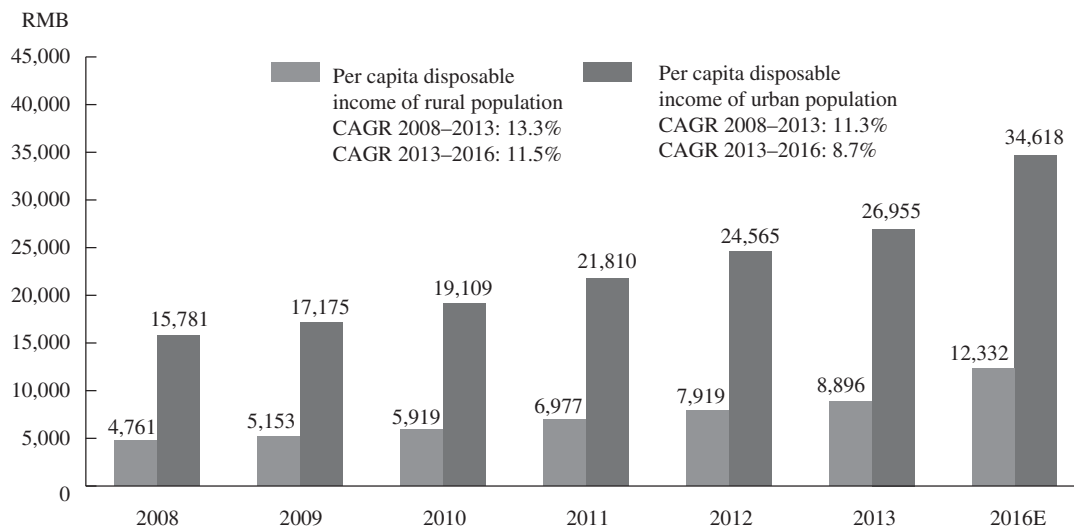
Source: NFS

INDUSTRY OVERVIEW

Key Growth Drivers for the PRC Pharmaceutical Industry

Fast Growing GDP and Disposable Income

China is one of the fastest-growing economies in the world. According to the National Bureau of Statistics of the PRC, China has surpassed Japan to become the second largest economy in the world with a GDP reaching RMB56.9 trillion in 2013. Furthermore, per capita annual disposable income of urban residents in China increased from RMB15,781 in 2008 to RMB26,955 in 2013, representing a CAGR of approximately 11.3%, while per capita annual disposable income of rural residents in China increased from approximately RMB4,761 in 2008 to RMB8,896 in 2013, representing a CAGR of approximately 13.3%. NFS projects that the per capita disposable income of urban and rural populations in the PRC will reach RMB34,618 and RMB12,332, respectively, in 2016, representing CAGRs of 8.7% and 11.5%, respectively, from 2013 to 2016. Details of the historical and projected per capita annual disposable income are set forth in the following chart:



Source:

- (1) 2008–2012: National Bureau of Statistics of the People's Republic of China
- (2) 2013–2016E: NFS

Rising Healthcare Spending

Total Healthcare Expenditure Growth

According to the China Health and Family Planning Statistical Yearbook of 2014 (2014 年中國衛生和計劃生育統計年鑒) issued by National Health and Family Planning Commission of the People's Republic of China (國家衛生和計劃生育委員會), China's total healthcare expenditure increased from RMB1,453.5 billion in 2008 to RMB3,186.9 billion in 2013, representing a CAGR of 17.0%. China's total healthcare expenditure has been growing rapidly in conjunction with the nation's ongoing healthcare reform, and is expected to continue to grow in the next several years. According to the World Bank report, healthcare spending in most developed countries accounted for approximately 7.0% to 18.0% of GDP in 2012, while China's expenditure on healthcare was approximately 5.4% of GDP in

INDUSTRY OVERVIEW

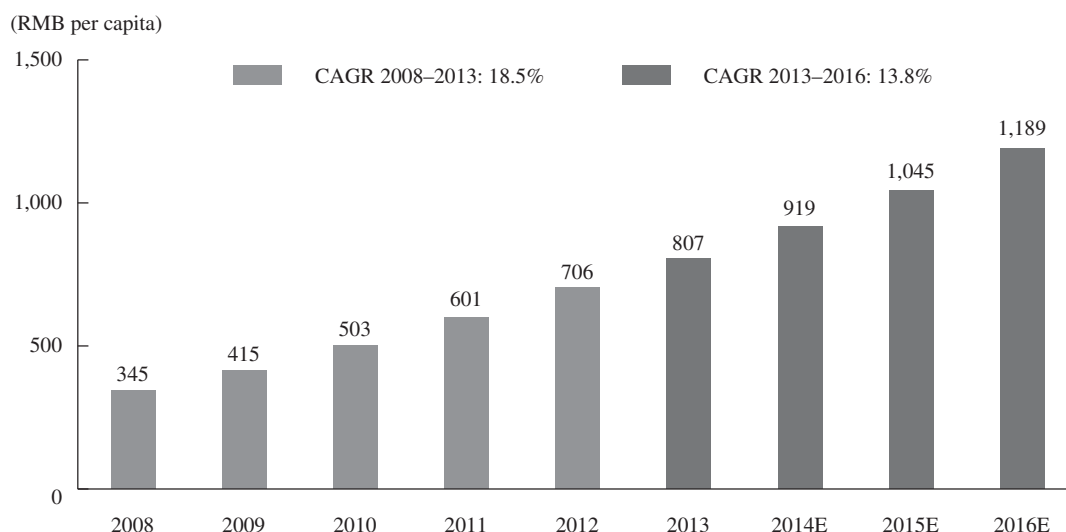
2012. According to NFS, China's healthcare spending is expected to continue to grow from 2013 to 2016 at a CAGR of 17.9% and reach RMB5,219.9 billion in 2016.

Per Capita Healthcare Spending

According to NFS, China's per capita healthcare spending grew from US\$155 in 2008 to US\$322 in 2012, representing a CAGR of 20.1%. This growth exceeded that of many other countries, including the US, Japan and South Korea. However, China's per capita healthcare spending of US\$322 in 2012 represented only 3.6% of per capita healthcare spending in US, 6.8% of Japan and 18.9% of South Korea and is expected to continue to grow rapidly in the future according to NFS.

Per Capita Spending on Medicine

China's per capita spending on medicine increased from RMB345 in 2008 to RMB807 in 2013, representing a CAGR of 18.5%. According to NFS, China's per capita spending on medicine is expected to grow at a CAGR of approximately 13.8% from 2013 to 2016. The chart below sets out the historical and projected China's per capita spending on medicine for the periods shown.



Source: NFS

Government-sponsored Medical Insurance Reform

The ongoing healthcare reform led by Chinese government aims to build a nationwide insurance system to provide substantially all of China's population with affordable medical services. At present, such system consists of three types of essential medical insurance: (i) the Urban Employee Basic Medical Insurance Scheme which is a mandatory health insurance program for urban employees and retirees; (ii) the Urban Resident Basic Medical Insurance Scheme, which is a voluntary program for other urban residents; and (iii) the New Rural Cooperative Medical Scheme ("NRCMS"), which is a voluntary program for all rural residents. According to 2014 China Health Statistics Yearbook, the two urban insurance schemes covered 573 million urban residents, accounting for approximately 78.4% of the total registered urban population as of the end of 2013. In the meantime, the NRCMS covered approximately 802 million rural residents, accounting for approximately 98.7% of the total registered rural population.

INDUSTRY OVERVIEW

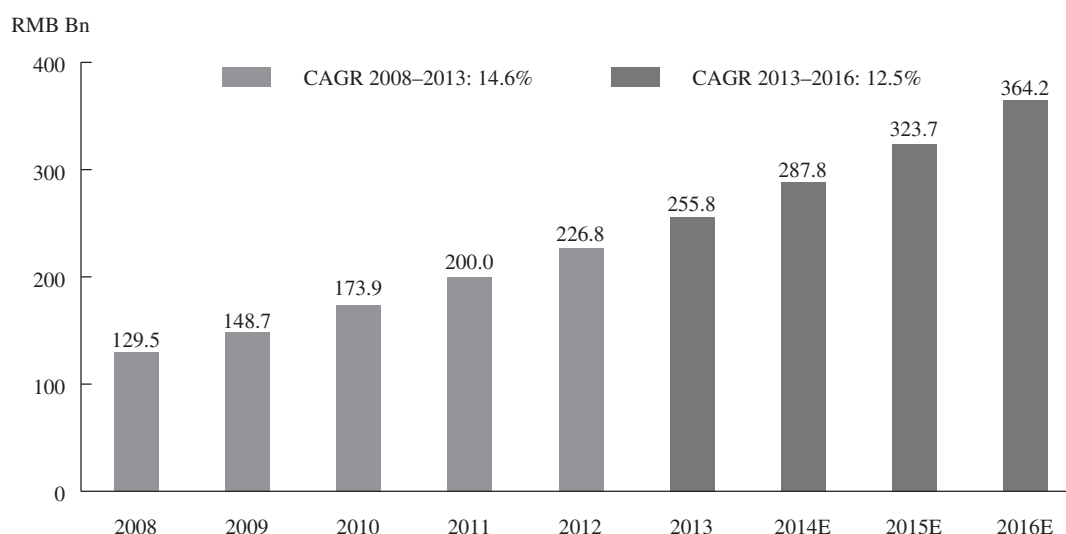
For certain illnesses that require expensive medical procedures, a supplemental medical reimbursement system is in place, which provides a minimum of 50% reimbursement in addition to the basic medical insurance coverage.

Other Key Factors

According to NFS, several other factors, including the aging population and increasing urbanization, are also contributing to the high growth of China's pharmaceutical industry. According to the 2010 census released by National Bureau of Statistics of China, there were 178 million individuals in China aged 60 years old or above, representing 13.3% of the population. The number of individuals in this age category is growing at a fairly fast pace and is expected to reach 356 million by the end of 2030 according to China National Commission on Aging Populations. In addition, incidences of chronic health diseases, such as hypertension, diabetes and hyperglycemia, grew rapidly over the last decade and are expected to continue to grow significantly in the future due to the increasing number of aging population, according to NFS. Furthermore, China's rapid economic growth has coincided with its unprecedented urbanization beginning in the 1990s. As cities often offer better employment prospects, educational opportunities and better living environment, there has been an increasing number of individuals moving to cities, which offer better healthcare services and have higher per capita healthcare spending than rural area. China's urbanization trend is expected to further support the growth of the healthcare sector in China.

Pharmaceutical Retail Industry Overview

According to NFS, total sales of pharmaceutical products to consumers through retail pharmacies in China grew from RMB129.5 billion in 2008 to RMB255.8 billion in 2013, representing a CAGR of 14.6%. The retail market is expected to reach RMB364.2 billion in total sales in 2016. The following chart sets out the historical and expected growth of the PRC pharmaceutical retail industry for the periods indicated.



Source: NFS

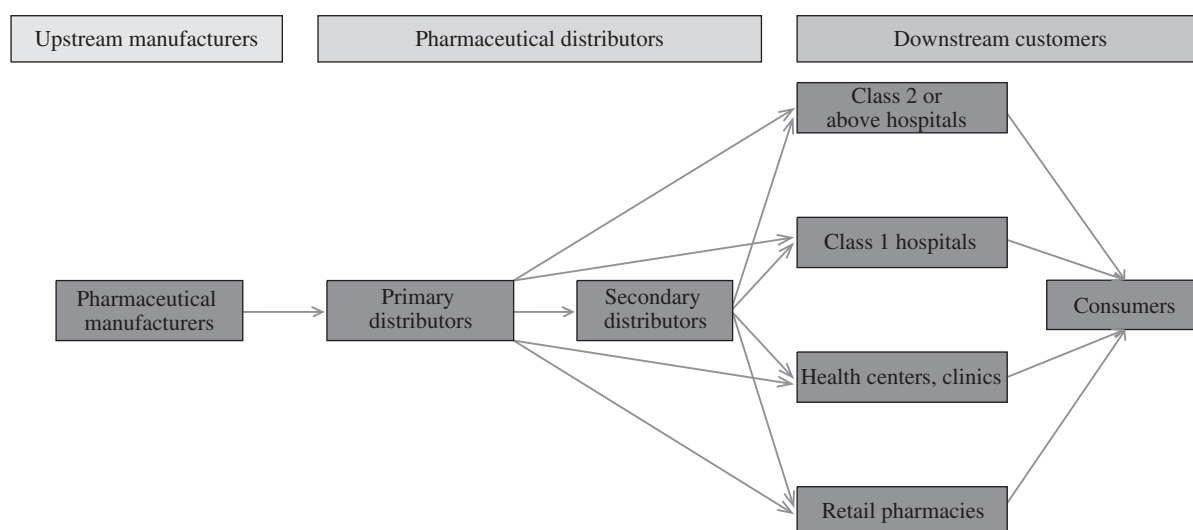
INDUSTRY OVERVIEW

Retail Pharmacy Business Model

According to NFS, retail pharmacy stores in China have two business models, which are chain stores and single stores. Chain stores can be further divided into self-operated retail pharmacy stores and franchise retail pharmacy stores. The franchise chain store model allows fast expansion at relatively low cost. As of the end of 2013, Chongqing Tongjunge Pharmacy Chain Co., Ltd.* (重慶桐君閣大藥房連鎖有限公司) ranked first among retail pharmacy chain store operators in China with 7,000 stores, Hubei Tongjitang Pharmacy Co., Ltd.* (湖北同濟堂藥房有限公司) ranked second with 4,535 stores and Chengdu Pashun Pharmacy Chain Store Co., Ltd.* (成都百信藥業連鎖有限公司) and Xiuzhengtang Chain Group* (修正堂連鎖集團) both ranked third with 1,397 stores. Although self-operated retail pharmacy stores generally have higher cost and entry barriers, there is a trend that large operators of retail pharmacy chain stores are increasingly shifting toward the self-operated business model because this business model enhances profit margins, operational control and bargaining power with suppliers, according to NFS. Following the China Food and Drug Administration's promulgation of the new Good Supply Practice (藥品經營質量管理規範) on June 1, 2013, individual retail pharmacy stores face increased cost pressure as they are now required to have a licensed pharmacist on site. In addition, they suffer a disadvantage in price negotiating leverage with suppliers compared with chain stores due to their lower purchase volume. NFS expects to see individual retail pharmacy stores joining franchise retail pharmacy stores as a result of the above.

Pharmaceutical Distribution Industry Overview

The typical value chain of the pharmaceutical distribution industry is divided into three main segments: (i) pharmaceutical manufacturers; (ii) pharmaceutical distributors which include primary distributors and secondary distributors; and (iii) downstream customers which include hospitals, health centers, clinics, retail pharmacies and consumers. Pharmaceutical products manufactured by upstream manufacturers are normally distributed through primary or secondary distributors to downstream customers. However, in some cases, additional distributors are also involved. Relying on their own sales networks and customer resources, distributors may decide to sell the pharmaceutical products to downstream hospitals, health centers and clinics, by themselves.



Source: NFS

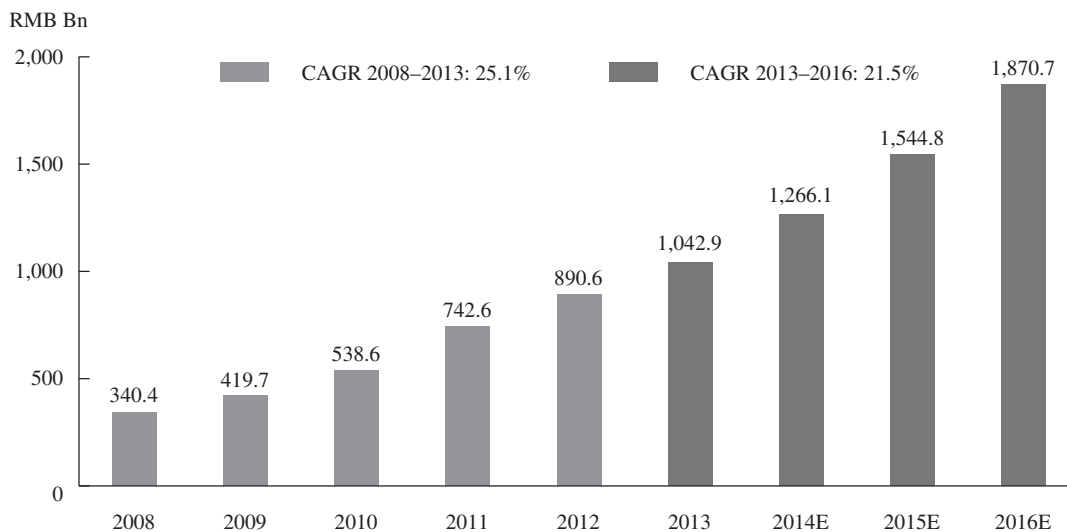
INDUSTRY OVERVIEW

Pharmaceutical Distribution Business Model

Pharmaceutical distribution enterprises in China can be categorized into three major types by business model, namely, distribution-oriented, professional agency, and value chain integrated. The distribution-oriented business model is the principal model in the pharmaceutical distribution sector in China and is characterized by extensive distribution network and large product offerings. According to NFS, companies operating under this business model have (i) large product offerings, comprising new medicine, regular medicine and over-the-counter medicine; and (ii) broad customer bases, including public hospitals in large and medium-sized cities, public hospitals at the regional level and county level, privately-owned hospitals, retail pharmacy stores, community hospitals, health clinics and rural medical institutions and retail shops. Our Group operates under the distribution-oriented business model. The professional agency business model is the most focused. According to NFS, companies operating under this business model are primarily engaged in distributing imported medicine or specialized medicine to major hospitals in large and medium-sized cities. The value chain integrated business model integrates the procurement, production and sales links on the pharmaceutical industry value chain. According to NFS, companies operating under this business model use the OEM model for upstream production to lower costs, and integrate downstream customers and provide certain management services to customers to increase bargaining power and marketing recognition.

Growth in the PRC Pharmaceutical Distribution Industry

According to NFS, the total sales from distributors to hospitals, healthcare centers, clinics, retail pharmacies in China grew from RMB340.4 billion in 2008 to RMB1,042.9 billion in 2013, representing a CAGR of 25.1%. According to NFS, the pharmaceutical distribution industry is expected to reach RMB1,870.7 billion in 2016. The following chart sets out the historical and projected growth of China's pharmaceutical distribution market for the periods shown.



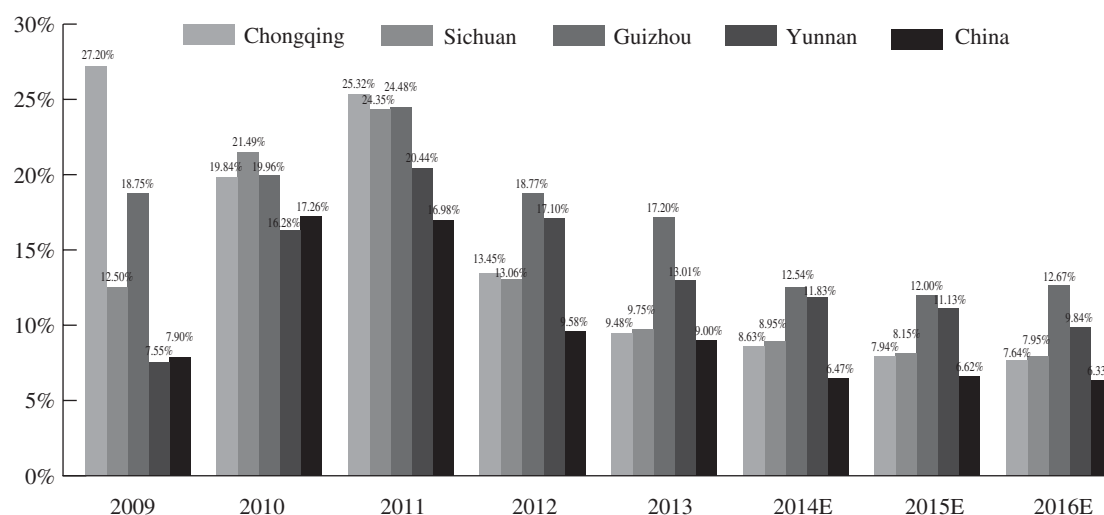
Source: NFS

INDUSTRY OVERVIEW

THE PHARMACEUTICAL INDUSTRY IN SOUTHWESTERN CHINA

Overview of Southwestern China

Southwestern China consists of four provinces and municipalities, namely Sichuan, Chongqing, Guizhou and Yunnan. These four provinces and municipalities had populations of 80.8 million, 29.5 million, 34.5 million and 46.6 million as of the end of 2012, respectively. In 2012, Southwestern China accounted for 14.2% of the national population according to the Bureau of Statistics of these four provinces and municipalities. Annual GDP growth rates from 2008 to 2013 of Sichuan, Chongqing, Guizhou and Yunnan generally outperformed China's overall GDP growth rate for the same period. Per capita GDP growth rates of these four provinces and municipalities from 2009 to 2013 were also generally higher than that of China as a whole. The following chart sets forth the comparison of historical and projected nominal per capita GDP growth rates of Sichuan, Chongqing, Guizhou, Yunnan and China from 2009 to 2016.



Source: NFS

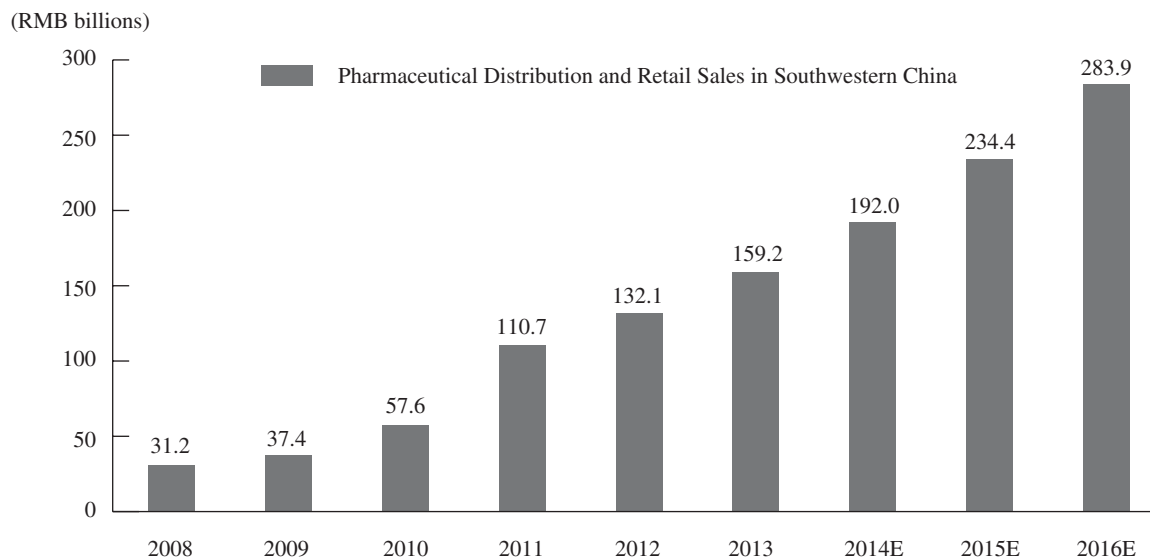
Primary Growth Drivers of the Pharmaceutical Industry in Southwestern China

In February 2012, the PRC State Council promulgated the “Western Development Twelfth Five-Year Plan” (西部大開發“十二五”規劃), which pledges to devote resources to the economic and social development of Western China so that the regional GDP and individual income will both grow at higher rates than the national averages. In 2011, healthcare spending as a percentage of GDP is higher in Southwestern China compared with China as a whole, according to NFS. In 2012, population aged 65 or above, which is an important consumer group for pharmaceutical products, represented 9.8% of the total population in Southwestern China, compared with 8.9% for all of China.

INDUSTRY OVERVIEW

Pharmaceutical Distribution and Retail Sales in Southwestern China

The table below sets forth historical and projected pharmaceutical distribution and retail sales in southwestern China for the periods indicated:



Source: NFS.

According to NFS, pharmaceutical distribution and retail sales in southwestern China grew at CAGRs of 38.5% from 2008 to 2013 and are expected to further grow at CAGRs of 21.2% from 2013 to 2016.

Rural Pharmaceutical Distribution in Sichuan Province

According to NFS, the rural pharmaceutical distribution in Sichuan province has significant growth potential primarily because (i) the PRC government has implemented the National List of Essential Drugs since 2009 to meet the needs of basic medical institutions and has made significant investments in providing adequate medicines to the basic medical institutions; and (ii) the PRC government has been increasing subsidies under the NRCMS, which is expected to spur the demand for medicine in rural markets.

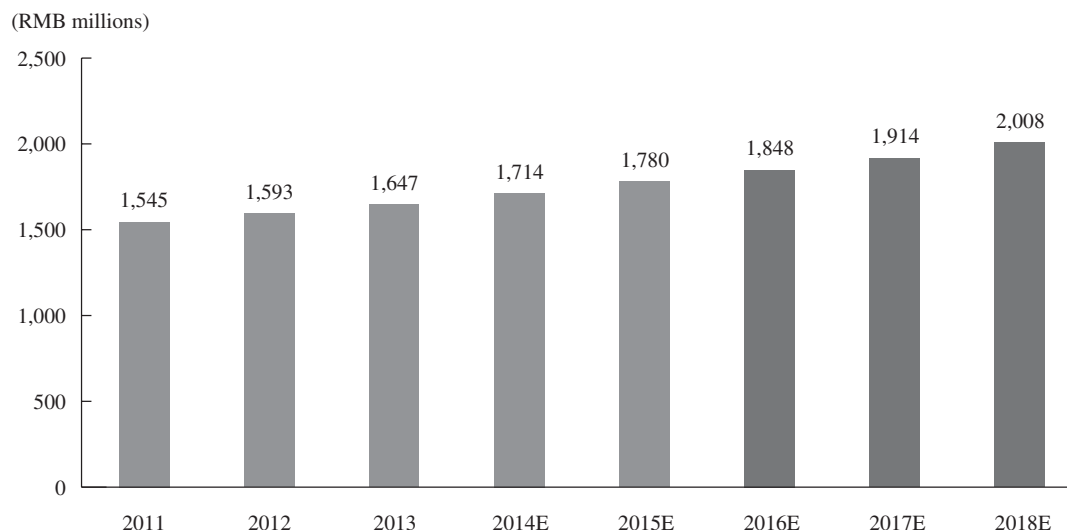
THE EMBROCATION INDUSTRY IN CHINA

Growth drivers

According to NFS, the market for embrocation in China is expected to continue to grow primarily due to the following: (i) China has a large population base, and the total number of patients suffering from muscle pain is large. Due to cultural reasons, consumption level and habit, these patients tend to rely on embrocation to ease muscle pain; and (ii) the percentage of people aged over 65 among the total population of China continues to increase. This group of people has historically been one of the largest consumer groups for embrocation.

INDUSTRY OVERVIEW

The following chart sets forth the historical and projected size of the embrocation market in China for the periods shown.



Source: NFS

Zhenghonghua embrocation represented approximately 29.2%, 28.8% and 30.3% of the total embrocation market for the years ended December 31, 2011, 2012 and 2013, respectively.

Competition

The following table sets forth the top five brands by retail sales revenue in the Zhenghonghua embrocation market in China for the periods shown.

Brand	Manufacturer	2011		2012		2013	
		Retail Sales ⁽²⁾ (RMB millions)	Market Share %	Retail Sales ⁽²⁾ (RMB millions)	Market Share %	Retail Sales ⁽²⁾ (RMB millions)	Market Share %
Zhenlong (真龍)	Pa Shun Pharmaceutical International Holdings Limited	207	45.9	211	46.1	218	43.6
Fu Biao (斧標)	Liangjiefu (Guangdong) Pharmaceutical Company Limited	105	23.2	113	24.8	118	23.7
Imada (依馬打) ⁽¹⁾	Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited	50	11.0	39	8.8	48	9.6
Yonglong (永龍)	Wanyuan (Fuzhou) Pharmaceutical Company Limited	40	8.8	40	8.5	42	8.4
Imada (依馬打) ⁽¹⁾	Luen Wah (HK) Medicine Ltd.	33	7.4	35	7.5	38	7.7

INDUSTRY OVERVIEW

Note:

- (1) Although these two brands both contain “Imada (依馬打)”, their logo designs are not the same and they are owned by two unrelated parties. In a final verdict rendered in 2012, Guangdong High People’s Court ruled that Shenzhen Kingworld Lifeshine Pharmaceutical Company Limited and Luen Wah (HK) Medicine Ltd. both have the right to use the “Imada (依馬打)” brand name.
- (2) Retail sales represents total sales revenue calculated at the retail price to end consumers.

According to NFS, PRC manufacturers of embrocation for external use generally maintain gross profit margins that are higher than the industry average for the pharmaceutical manufacturing industry. According to NFS, our Group is able to generate relatively high gross profit margin for our Zhenghonghua embrocation primarily because (i) we are able to control costs of production due to stable supplies of raw materials and mature production technologies; (ii) our target markets generally do not overlap with our major competitors’ target markets; and (iii) unlike our competitors, we do not have a national sales agent which purchases all products of a pharmaceutical manufacturer and resells to distributors. While we also sell some of our Zhenghonghua embrocation on a wholesale basis to distributors, we sell a majority of our Zhenghonghua embrocation directly to franchise retail pharmacy stores under our “Pa Shun” brand and medical institutions in Sichuan province. Our sales model allows us to retain more profit compared to the national sales agent model adopted by our major competitors. Our competitors tend to rely on the national sales agent model primarily because they lack their own distribution network and personnel. While the national sales agent model requires them to pay significant amounts to the national sales agents, it also enables them to reach a broad base of customers without investing significant capital and time to build their own distribution channels. We are able to use the direct sales model, which generates higher profit margin, primarily because we already possess an established distribution network and experienced distribution personnel as a result of the operations of our pharmaceutical distribution business.

Our Directors, after taking reasonable care, confirm that there is no adverse change in the market information since the date of NFS study.

REGULATIONS

REGULATORY OVERVIEW

This section summarizes the principal PRC laws and regulations relating to the operations of our PRC subsidiaries.

PRC LAWS AND REGULATIONS ON THE PHARMACEUTICAL INDUSTRY

Regulatory Framework

Our business operations are subject to regulatory controls governing pharmaceutical products, medical devices and health food. Thus we are subject to regulation and oversight by different levels of the food and drug administration in the PRC, in particular, the CFDA. The Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法), which was promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on September 20, 1984, as amended on February 28, 2001, December 28, 2013 and April 24, 2015, together with its implementation regulations, which was promulgated on August 4, 2002 and came into effect on September 15, 2002, provides the legal framework for the administration of the production and sale of pharmaceutical products in the PRC which covers the manufacturing, distributing, registration, packaging, pricing and advertising of pharmaceutical products in the PRC.

On April 24, 2015, the newly amended Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) was passed by the 14th session of the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) and took effect on the day of promulgation. The main amendments include: (1) the stipulation in the previous Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) that one must hold a Pharmaceutical Manufacturing Permit or a Pharmaceutical Operation Permit for the registration with the local administration of SAIC was deleted. Obtaining a Pharmaceutical Manufacturing Permit or a Pharmaceutical Operation Permit is no longer a precondition for the registration with the local administration of SAIC. Therefore, the original Article 100 was deleted to be consistent with the 2015 revision, (2) the original Article 55 which stipulated, among others, that for drugs the prices of which are fixed or guided by the government, the competent pricing department of the government shall, in accordance with the pricing principle stipulated in the Pricing Law of the People's Republic of China and base on average social cost, supply and demand in the market, and public affordability, rationally fix and adjust the prices, was deleted, thus the government has decided to stop directly fixing and guiding most of the drug's prices, and (3) while the government no longer directly fixes or guides most of the drugs' prices, the prices of drugs must still comply with the regulations concerning the control on prices of drugs prescribed by the competent authority under the State Council.

On May 4, 2015, The NDRC, the NHFPC, the Ministry of Human Resources and Social Security of PRC (中華人民共和國人力資源和社會保障部), the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), the Ministry of Finance of the PRC (中華人民共和國財政部), the MOFCOM and the CFDA, jointly promulgated the Circular on Issuing the Opinions on Promoting Drug Price Reform (關於印發推進藥品價格改革意見的通知). Meanwhile, the NDRC issued the Circular on Announcing the Abolishment of Drug Price Files (關於公佈廢止藥品價格文件的通知) and the Circular on Strengthening the Supervision of the Medicine Market Price Behavior (關於加強藥品市場價格行為監管的通知).

REGULATIONS

Under these circulars, since June 1, 2015, except that the prices of narcotic and psychotropic drugs in category I will still be governed by the NDRC through fixing the ex-factory ceiling price and retail ceiling price, prices of other drugs will not be fixed by the government. Meanwhile, the government will still supervise drug pricing by improving the drug procurement mechanism, strengthening the cost control function of medical insurance system, and strengthening the supervision of medical behaviors and pricing behaviors, to establish a market-oriented drug price formulating mechanism.

We are also subject to other PRC laws and regulations that regulate the manufacturing and distribution of pharmaceutical products and distribution of medical devices and health food.

Principal Administrative Authorities

As the competent authority of the pharmaceutical and healthcare industries, the CFDA is responsible for the administrative and technical supervision over the research, production, circulation and usage of drugs, including traditional Chinese medicines. The local drug administrative authorities at the level of provinces, autonomous regions and municipalities directly under the PRC central government are responsible for the supervision and administration of drugs within their respective administrative regions.

The National Health and Family Planning Commission of the People's Republic of China (國家衛生和計劃生育委員會) ("NHFPC"), which succeeded the MOH is a ministerial department under the direct supervision of the State Council, which is the PRC central government and the highest administrative authority. NHFPC focuses primarily on public healthcare matters that are not directly related to the pharmaceutical industry. NHFPC also performs a variety of regulatory roles in relation to drug administration, including, without limitation, carrying out healthcare system reform, formulating and implementing the National Essential Drugs System, formulating the National Drug Code and National List of Essential Drugs, proposing pricing policies for the National List of Essential Drugs, and supervising healthcare institutions.

The MOFCOM of the PRC is the competent authority of the circulation industry, including but not limited to the pharmaceutical distribution industry in China. It is responsible for:

Formulating plans, policies and standards concerning the development of the pharmaceutical distribution industry;

Enhancing the structure readjustment of the pharmaceutical distribution industry;

Guiding the reform of pharmaceutical distribution industry; and

Promoting the development of a modern pharmaceutical distribution industry in China.

The NDRC is responsible for the macro-guidance and management of the healthcare industry's development planning, the supervision and management over the price of medicines and the formulation of the national unified retail price for certain drugs falling into the National Medical Insurance Drugs Catalogues and for drugs that have monopoly over their production and distribution.

REGULATIONS

Industrial Policy

The Provisions on Guiding Foreign Investment (指導外商投資方向規定) was promulgated by the State Council on February 11, 2002 and became effective on April 1, 2002. Pursuant to the Provisions on Guiding Foreign Investment, foreign investment projects fall into four categories: encouraged, permitted, restricted and prohibited projects. Except for the permitted category, the encouraged, restricted and prohibited categories are listed in the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the “Catalogue”), which was promulgated by the NDRC and the MOFCOM on March 10, 2015 and became effective on April 10, 2015.

Pursuant to the Interim Provisions for Domestic Investment of Foreign-Invested Enterprises (外商投資企業境內投資的暫行規定) promulgated on July 25, 2000 and became effective on September 1, 2000, domestic investment by foreign-invested enterprises shall, mutatis mutandis, be handled in accordance with the Provisions on Guiding Foreign Investment Direction and the Catalogue. Foreign-invested enterprises may not invest in fields in which foreign investment is prohibited.

According to the Catalogue, the core business of our PRC Subsidiaries, mainly include the research and production of drugs including traditional Chinese medicines; wholesale, retail and distribution of pharmaceutical products, medical devices, health food, cosmetics and general merchandise which belongs to the permitted category for foreign investments on a wholly-owned basis, and rural distribution which belongs to the encouraged category for foreign investments.

Manufacturing of Pharmaceutical Products

Pharmaceutical Manufacturing Permits and Approvals

A manufacturer of pharmaceutical products must obtain a variety of special permits and licenses before commencing operations. These include a pharmaceutical manufacturing permit, a GMP certification(s) and a medicine approval document(s).

The Pharmaceutical Manufacturing Permit

Pursuant to the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法), its Implementation Regulations (中華人民共和國藥品管理法實施條例) and the Measures on the Supervision and Administration of the Manufacture of Pharmaceuticals (藥品生產監督管理辦法), the Pharmaceutical Manufacturing Permit is issued by local medicine administrative authorities at the provincial level. The grant of such permit is subject to an inspection of the manufacturing facilities, and a finding that their staff qualification, the surroundings, sanitary conditions, quality assurance systems, management structure and equipment meet the required standards. Each Pharmaceutical Manufacturing Permit is valid for five years and may be renewed at least six months prior to its expiration date upon re-examination by the relevant authority.

Good Manufacturing Practice (“GMP”)

The GMP, which was promulgated by the MOH on January 17, 2011 and became effective on March 1, 2011, is a set of detailed basic guideline on manufacture and quality control of pharmaceutical products, with the propose of ensuring that the products that are consistently manufactured conform to their intended use and statutory registration requirements for the pharmaceutical products, by minimizing the risks of contamination, cross contamination, mix-ups and/or errors during the manufacture processing.

REGULATIONS

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

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

Approval and Registration for Pharmaceutical Products

Pursuant to the Administration Measures for Drug Registration (藥品註冊管理辦法) promulgated by the SFDA on July 10, 2007, a medicine must be registered with and approved by the SFDA before it can be manufactured. The registration and approval process requires the manufacturer to submit to the SFDA a registration application containing detailed information concerning the efficacy and quality of the medicine and the manufacturing process and the production facilities the manufacturer expects to use for production of such medicine. To obtain SFDA registration and approval necessary for commencing production, the manufacturer is also required to conduct pre-clinical trials, apply to the SFDA for permission to conduct clinical trials, and, after the clinical trials are completed, file clinical data with the SFDA for approval. If approved, the applicant will be granted a certificate of new drug and an approved pharmaceutical number. The manufacturer may then commence mass production of the new pharmaceutical product. The approval number for medicine is valid for five years and may be re-registered at least six months prior to its expiration date. These measures also make provisions for pharmaceutical research, for instance, drug research institutes shall have the necessary personnel, facility, equipment, instruments, conditions and management system for the research project; the authenticity of all data and materials shall be ensured; the animals, reagents and raw materials used for experiments shall comply with the relevant national regulations and requirements; where an applicant for drug registration entrusts another institution to conduct the study of drugs, or any single experiment, inspection or pilot production, the applicant shall sign a contract with the entrusted party and give explanations when registration is applied for, and the applicant shall be responsible for the authenticity of the drug study data in the application documents.

Continuing CFDA Regulation

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

REGULATIONS

Distribution of Pharmaceutical Products

Pharmaceutical Operation Permits and Approvals

Pursuant to the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法), each pharmaceutical operation enterprise is required to obtain a Pharmaceutical Operation Permit and a GSP certification.

Pharmaceutical Operation Permits

The establishment of a pharmaceutical retail or distribution company requires the approval of the food and drug administration at the provincial level. The establishment of a pharmaceutical retail company requires the approval of the local food and drug administration at or above the county level. Upon approval, the relevant authority will grant a Pharmaceutical Operation Permit. The grant of such permit is subject to an inspection of the hygiene standards of operator's facilities, warehouse and environment, quality control systems, personnel (including whether pharmacists and other professionals have the relevant qualifications) and equipment. After the relevant permit is granted, the pharmaceutical operator should obtain a business license from the relevant administration for industry and commerce prior to commencing its business.

According to the Measures for the Administration of Pharmaceutical Operation Permit (藥品經營許可證管理辦法), which became effective on April 1, 2004, the pharmaceutical operation license is valid for five years. Each pharmaceutical operation permit holder must apply for an extension of the permit within six months prior to its expiration, and extension is granted only after a re-examination of the permit holder by the authority which granted the permit.

Good Supply Practices (“GSP”)

Each retail or wholesale operator of pharmaceutical products is required to operate its pharmaceutical business in accordance with the GSP which was lately amended on January 22, 2013 and became effective on June 1, 2013, and obtain the GSP certificate after inspected by competent pharmaceutical supervision authority. GSP standards, which are composed of a set of quality guidelines for operations relating to pharmaceutical products, regulate pharmaceutical wholesale and retail operators to ensure the quality of pharmaceutical products in the PRC. Currently, applicable GSP standards include the Implementing Rules of GSP (藥品經營質量管理規範實施細則) which was effective on November 16, 2000 and the Administrative Rules on Certification of GSP (藥品經營質量管理規範認證管理辦法), which require pharmaceutical operators to implement strict controls on the operation of pharmaceutical products, including standards regarding staff qualifications, premises, warehouses, inspection equipment and facilities, management and quality control.

Pursuant to the GSP, the principals in charge of product quality and the principals of quality control departments of pharmaceutical wholesale companies shall have licensed pharmacist qualifications, the legal representatives or principals of the pharmaceutical retail companies shall have the qualification of licensed pharmacists and the pharmaceutical retail company shall be equipped with licensed pharmacists who are responsible for the prescription audit and guiding the rational use of drugs.

The implementing rules of the new GSP have not been promulgated at the country level. Pursuant to the new GSP, Chengdu Food and Drug Administration (成都市食品藥品監督管理局) issued the

REGULATIONS

Provisions on Approval and Supervision of Pharmaceutical Retail Enterprises of Chengdu (成都市藥品零售企業審批及監管規定) which was effective on June 1, 2013 and the Notice on Issuing the Implementation Standards of Acceptance for the Pharmaceutical Retail Enterprises of Chengdu (For the second trail implementation) (關於印發成都市藥品零售企業驗收實施標準(試行第二版)的通知) which was effective on August 29, 2013. A supplementary notice was issued by the Chengdu Food and Drug Administration (成都市食品藥品監督管理局) on January 14, 2014 which provides the detailed standards for staffing of licensed pharmacists in pharmacy chain stores. In view of the situation of the shortage of the licensed pharmacists, this Notice stipulated that: (i) Drug retail chain stores which implemented remote pharmaceutical services by licensed pharmacists shall equipped with at least two licensed pharmacists for checking prescription and medication guide services according to the proportion of the numbers of stores; and (ii) the lowest proportion for the allocation of licensed pharmacists for drug retail chain stores which implemented remote pharmaceutical is: when the number of stores is less than 50, the proportion is 1:10; when the number of store is between 51–200, the proportion is 1:15; when the number of stores are between 201–500, the proportion is 1:20; when the number of stores is more than 500, the proportion is 1:25.

Pursuant to the Notice on Implementation of the Revised Pharmaceutical GSP (關於貫徹實施新修訂《藥品經營質量管理規範》的通知) promulgated by the CFDA on June 24, 2013, either the Pharmaceutical Operation Permit or the GSP certificate is expired, the local food and drug administration authority needs to inspect the retail or wholesale operator based on the newly revised GSP standards. If they meet the requirements, the local food and drug administration authority will issue the updated Pharmaceutical Operation Permit and the GSP certificate. For the operators whose certificates is expired but could not complete the transformation before December 31, 2013, the certificate could be renewed until June 30, 2014 upon their application. Before December 31, 2015, all drugs operation enterprises must meet the requirements of newly revised standards of GSP, regardless of their Pharmaceutical Operation Permit or the GSP certificate has expired or not. Starting from January 1, 2016, retail or wholesale operator of pharmaceutical products who can not reach newly revised standards of GSP are not allowed to engage in drugs operation.

Supervision and Management of Drug Distribution

To strengthen drug supervision and management, and maintain orderly circulation and quality, the SFDA issued the Method of Supervision and Management of Drug Distribution (藥品流通監督管理辦法) on January 31, 2007, which became effective on May 1, 2007. Detailed provisions are imposed on a variety of matters such as the purchase, sale, transportation and storage of medicines by pharmaceutical production and operation enterprises as well as the purchase and storage of medicines by pharmaceutical institutions.

The Drug Chain Store Distribution

Pursuant to the Implementing Rules of GSP, drug retail chain stores shall not purchases drugs independently. Pursuant to the Chengdu Food and Drug Administration on Issue of the Provisions on Approval and Supervision of Pharmaceutical Retail Enterprises of Chengdu City (成都市食品藥品監督管理局關於印發成都市藥品零售企業審批及監管規定的通知), most of the drugs retail chain stores purchased should be distributed by the chain enterprises, and in principle, the stores may choose less than three legitimate business enterprises as the drug suppliers. As described by an officer of the Chengdu Food and Drug Administration, before new GSP implementing rules are promulgated, the distribution of the chain store should comply with the local implementing rules promulgated by Chengdu Food and Drug Administration (成都市食品藥品監督管理局).

REGULATIONS

The Rural Drug Distribution

Notice on Strengthening Rural Drug Supervision and Promoting the Construction of Rural Drug Supply Network Pilot Work (關於開展加強農村藥品監督促進農村藥品供應網路建設試點工作的通知) promulgated by the SFDA in June 2003, clearly pointed out the guiding ideology, objectives of pilot work about strengthening rural drug supervision and promoting the construction of rural drug supply network (hereinafter referred to briefly as “two nets” construction), and selecting some areas of the pilot.

According to the Opinions of the General Office of Chengdu Municipal People’s Government on Carrying out the Rural Drug Supervision and Supply Network Building (成都市人民政府辦公廳關於全面開展農村藥品監督供應網路建設工作的意見), which became effective on August 28, 2003, Chengdu comprehensively carry out “two nets” construction work, to realize 100% township hospitals and village clinics (station) into the centralized drug distribution supply network before 2013. The centralized distribution enterprise determined by tender is in charge of all drugs supply, and assume exclusive concentration distribution in area of medicine in the rural areas.

Pursuant to the Interim Measures of Chengdu City for Rural Drug Supervision and Supply Networks Management (成都市農村藥品監督供應網路管理暫行辦法) promulgated on January 10, 2005 and became effective on March 1, 2005, suppliers of pharmaceutical products must participate in collective tender processes to win the right to supply medicines listed in the Insurance Catalogue and medicines that are consumed in large volumes and commonly prescribed for clinical use. The government-organized tender process is as follows: local tender authority is formed by local authorities of district (city) county people’s government, tenderers announce tender documents through newspapers, broadcast, network to the public, after assessing the tender documents, the tender authority publish the tender results on its official website, the successful tender will sign a drug distribution contract with rural medical institutions.

Pursuant to the Trial Implementation Plan of Sichuan Province Basic Healthcare Institutions Basic Drugs Centralized Bidding Procurement (四川省基層醫療衛生機構基本藥物集中招標採購實施方案(試行)), promulgated on January 27, 2011, tender prices for products to Health and Family Planning Commission of Sichuan Province (四川省衛生和計劃生育委員會) shall refer to (i) the essential drugs purchase prices issued by NDRC and the Development and Reform Commission of Sichuan Province (四川省發展和改革委員會); (ii) retail prices by pharmacies; (iii) actual purchase prices by medical institutions; and (iv) online price ceilings of essential drugs in Sichuan province.

Pursuant to the Measures of Chengdu City for Basic Drugs Purchase and Distribution by Basic Healthcare Institutions (成都市基層醫療衛生機構常用藥品採購和配送管理辦法) promulgated on November 18, 2011, the tender authority formulates the implementation rules of tender process and issues tender information on the public website of the local government of district level or newspapers, the preliminarily qualified tenders deliver tender documents to designated place at designated time, after the tender authority assesses the tender documents, the local government of district level submits the tender results to Chengdu Food and Drug Administration (成都市食品藥品監督管理局) and publishes the tender results on its public website or newspapers and periodicals.

The MOFCOM published the Outline for Development Program of National Pharmaceutical Circulation Industry (2011–2015) (全國藥品流通行業發展規劃綱要) on May 5, 2011, pursuant to which, it is required to actively participate in the drug bidding purchasing and improve the safety, convenience of drug supply in rural and remote areas.

REGULATIONS

Online Pharmaceutical Information Service Permit

The Measures regarding the Administration of Pharmaceutical Information Service Over the Internet (互聯網藥品信息服務管理辦法), promulgated and implemented since July 8, 2004 by the SFDA, define the delivery of free publicly available medicine information services over the internet as a non-profit online medicine information service. This service requires a qualification certificate from the relevant provincial medicine administrative authorities. The qualification certificate is valid for five years and may be renewed by filing for a renewal at least six months prior to its expiration date and undergoing re-examination by the relevant authority.

Prescription Medicine and Over-the-Counter Medicine

In order to promote safety, efficiency and convenience in the use of pharmaceutical products, SFDA published the Trial Administrative Measures Regarding the Classification of Prescription Medicines and Over-the-Counter Medicines (處方藥與非處方藥分類管理辦法(試行)) in June 1999, which became effective on January 1, 2000. Pursuant to the Trial Administration Measures Regarding the Classification of Prescription Medicines and Over-the-Counter Medicines, drugs could be divided into two categories, Prescription Medicines and Over-the-Counter Medicines, according to their type, specification, the relevant disease or ailment which they are designed to treat, dosage and method of administration. Prescription medicines refer to those whose prescription, purchase and intake require prescription by practicing doctors or assistant doctors. Over-the-counter medicines refer to those whose prescription, purchase and intake do not require prescription by practicing doctors or assistant doctors.

The SFDA is responsible for the selection, approval, publication and revision of the State Over-the-counter Medicine Catalogue (國家非處方藥目錄). According to the safety of the relevant drug, over-the-counter medicines are further subdivided into type A and type B and administered separately. Wholesalers of prescription medicines and over-the-counter medicines and retailers selling prescription medicines and type A over-the-counter medicines are required to obtain a pharmaceutical operation permit. Retailers selling type B over-the-counter medicines require approval of the provincial food and drug administration or other designated authorities. In addition, retailers selling type B over-the-counter medicines are required to have professionally trained and suitably qualified staff before engaging in the sale of type B over-the-counter medicines.

Anesthetics and Anti-Psychotic Drugs

China regulates the distribution of anesthetics and anti-psychotic drugs pursuant to the Regulations on the Administration of Anesthetics and Anti-Psychotic Drugs (麻醉藥品和精神藥品管理條例), which became effective on November 1, 2005. In China, anti-psychotic drugs are classified into two different categories, category I and category II, with category I being subject to the highest level of regulation. Under these regulations, an enterprise engaged in the wholesale distribution of category II anti-psychotic drugs must obtain the prior approval of the provincial food and drug administration. National wholesale enterprises and regional wholesale enterprises may engage in the wholesale distribution of category II anti-psychotic drugs. An enterprise engaged in the retail distribution of category II anti-psychotic drugs must sell anti-psychotic drugs by the quantity provided by prescription from a licensed doctor, and must keep the prescription for two years for inspection. It is prohibited to sell category II anti-psychotic drugs to adolescents.

REGULATIONS

National List of Essential Drugs

On August 18, 2009, MOH and other eight ministries and commissions in the PRC issued the Provisional Measures on the Administration of National List of Essential Drugs (國家基本藥物目錄管理辦暫行), or the Measures, and the Guidelines on the Implementation of the National List of Essential Drugs System (關於建立國家基本藥物制度的實施意見), or the Essential Drugs Guidelines, that aim to promote essential medicines sold to consumers at fair prices in the PRC and ensure that the general public in the PRC have equal access to the drugs contained in the National List of Essential Drugs. On the same day, MOH promulgated the National List of Essential Drugs (Catalog for the Basic Healthcare Institutions) (2009 Edition) (國家基本藥物目錄(基層醫療衛生機構配備使用部分)(2009版)), which applies only to basic healthcare institutions.

Basic healthcare institutions primarily include county-level hospitals, county-level Chinese medicine hospitals, rural clinics and community clinics. Pharmaceutical sales from basic healthcare institutions account for a small portion of the pharmaceutical market in the PRC.

Operation of Medical Devices

In accordance with the Regulations on the Supervision and Administration of Medical Devices (醫療器械監督管理條例) promulgated on March 7, 2014 and became effective on June 1, 2014, medical devices are classified into three classes:

Class I medical devices with low risk refers to those whose safety and validity can be ensured through regular administration.

Class II medical devices with intermediate risk refers to those whose safety and validity shall be strictly controlled and supervised.

Class III medical devices with high risk refers to those whose safety and validity shall be strictly controlled and supervised through special measures.

The category of medical devices and medical devices classification rules are formulated and adjusted by the CFDA and shall be published to the society.

Medical Device Operation Permit

Pursuant to the Regulations on the Supervision and Administration of Medical Devices (醫療器械監督管理條例) which became effective on June 1, 2014 and the Measures for the Administration of Permits for Medical Devices Operation Enterprise (醫療器械經營企業許可證管理辦法) which became effective on August 9, 2004, an enterprise engaged in wholesale or retail of Class II & Class III medical devices must obtain an operation permit from the provincial food and drug administration. An operation permit is valid for five years and is renewable upon expiration. To renew an operation permit, a distributor needs to submit an application to the provincial food and drug administration, along with all required information within six months before the expiration of the permit.

REGULATIONS

Operation of Health Food

Pursuant to the Food Hygiene Law of the PRC (中華人民共和國食品衛生法) promulgated on October 30, 1995 (superseded by the Food Safety Law of the PRC (中華人民共和國食品安全法), which became effective on June 1, 2009), the Administrative Measures on Health Food (保健食品管理辦法) promulgated by MOH on March 15, 1996 and became effective on June 1, 1996, a seller of health food products must obtain a hygiene permit or food hygiene permit which includes distribution of “health food” in the permitted business scope from the health administrative department.

Pursuant to the Food Safety Law of the PRC (中華人民共和國食品安全法) and the Measures for the Administration of Food Circulation Permits (食品流通許可證管理辦法) promulgated by the State Administration for Industry & Commerce on July 30, 2009, an enterprise engaged in food circulation shall legally acquire a food circulation permit from the local administration for industry & commerce at county level or above. The hygiene permits or food hygiene permits issued before the enforcement of this law remain valid until expiration. The SFDA implements strict supervision of health food, specific measures for implementation shall be formulated separately by the State Council. As the State Council have not yet introduced the specific administrative measures of health food, during the transition period, each place has different rules for the operation of health food products. In Shijiazhuang, when a health food enterprise is newly set up or increases its business scope with “health food”, it should be reviewed by the Shijiazhuang Food and Drug Administration; in Wuhan, an enterprise with hygienic license including “health food” business scope, could apply for the renewal of its certificate until December 31, 2013 if the hygienic license expired with business address unchanged, the enterprise with food circulation license is allowed to operate the business of health food; in Chengdu, an enterprise with hygienic license including the business scope of “health food”, its hygienic license will remain valid until expiration, those replace hygienic license for food circulation license are allowed to operate the business of the health food.

Basic Medical Insurance System for Urban Employees

Pharmaceutical products listed in the National Medical Insurance Drugs Catalogues are covered by the national medical insurance programme. The national medical insurance programme was adopted pursuant to the Decision of the State Council on the Establishment of Basic Medical Insurance System for Urban Employees (國務院關於建立城鎮職工基本醫療保險制度的決定) issued by the State Council on December 14, 1998, under which all employers in urban cities are required to enrol their employees in the basic medical insurance programme and the insurance premium is jointly contributed by the employers and employees.

Participants of the national medical insurance programme and their employers are required to contribute to the payment of the insurance premium on a monthly basis. The Notice Regarding the Tentative Measures for the Administration of the Scope of Medical Insurance Coverage for Pharmaceutical Products for Urban Worker (關於印發城鎮職工基本醫療保險用藥範圍管理暫行辦法的通知), jointly issued by several authorities including the Ministry of Finance of the PRC (中華人民共和國財政部) on May 12, 1999, further requires that a pharmaceutical product included in the National Medical Insurance Drugs Catalogues to be clinically needed, safe, effective, reasonably priced, user-friendly and available in the market and meet one of the following requirements:

- it is set forth in the Pharmacopeia of the PRC;
- it meets standards promulgated by CFDA; or

REGULATIONS

- it is approved by CFDA for import.

Medical Subsidy to Residents in Rural Areas

As part of the medical treatment and healthcare reform, the PRC central government has implemented plans for the PRC central and local governments to share the costs of subsidizing the Guiding Opinions regarding the Further Improvement of Cooperative Medical Care in New Type Rural Areas on a Trial Basis (國務院辦公廳轉發衛生部等部門關於進一步做好新型農村合作醫院試點工作指導意見的通知), which was formulated by ten PRC government agencies including MOH, pursuant to which every rural resident in the middle and western regions of the PRC participating in this new rural cooperative medical care plan on a voluntary basis receives medical subsidies in the amount of RMB10.0 per year from the PRC central government. In addition, local governments in the middle and western regions of the PRC are required to subsidize no less than RMB10.0 per person per year and those in the eastern regions of the PRC are encouraged to aim to subsidize up to RMB20.0 per person per year. The actual amount of subsidies contributed by local government is dependent on the financial condition of the relevant local government.

The PRC central government further increased the amount of subsidies in 2006. On January 10, 2006, MOH, NDRC and five other ministries and bureaus jointly promulgated the Notice Regarding Acceleration of Implementation of Cooperative Medical Care in New Type Rural Areas on a Trial Basis (關於加快推進新型農村合作醫療試點工作的通知), pursuant to which the PRC central government increased the amount of subsidies for the rural residents in middle and western regions of the PRC, from RMB10.0 per person per year to RMB20.0 per person per year. In addition, local governments were required to increase the amount of subsidies by an additional RMB10.0 per person per year.

Pharmaceutical Price Controls

Pursuant to the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) as amended on February 28, 2001, together with its implementation regulations, for pharmaceutical pricing, the State Council carries out a system under which the prices are fixed or guided by the government or regulated by the market. For pharmaceuticals listed in the National Medical Insurance Drugs Catalogues and pharmaceuticals not listed in such catalogue but monopolistically manufactured and distributed, their prices shall be fixed or guided by the government; the prices of all other pharmaceuticals shall be regulated by the market.

Pursuant to the Opinion of the Bureau of State Planning Commission regarding Reforms on Price Administration of Pharmaceutical Products (國家計委關於改革藥品價格管理的意見) issued by the State Planning Commission, the predecessor of the NDRC, on July 20, 2000, and the Circular of the National Development and Reform Commission on Issue of Price-controlled Pharmaceutical Products Catalogue of National Development and Reform Commission (國家發展改革委員會關於印發〈國家發展改革委定價藥品目錄〉的通知), which became effective on August 1, 2005, prices of pharmaceutical products are either determined by the PRC government or based on market conditions. On March 5, 2010, the NDRC issued the Circular of the National Development and Reform Commission on adjustment of Price-controlled Pharmaceutical Products Catalogue of National Development and Reform Commission and other relevant issues (國家發展改革委關於調整〈國家發展改革委定價藥品目錄〉等有關問題的通知), which adjusted the Price-controlled Pharmaceutical Products Catalogue issued in 2005. NDRC issued the Notice on the Guiding Retail Price of Nation Essential Drugs (國家發展改革委關於公佈國家基本藥物零售指導價格的通知) in September 2009, which set ceiling prices for the National Essential Drugs. The prices of certain pharmaceutical products sold in the PRC, which are primarily included in the National Medical Insurance Drugs Catalogues and the Provincial Medical Insurance Drugs Catalogue are subject to price controls mainly in the form of fixed price or price ceiling. Operators cannot set the actual price of any designated price-controlled product above the price ceiling or deviate

REGULATIONS

from the fixed price imposed by the government. The prices of medicines that are not subject to price controls are determined freely at the discretion of the relevant pharmaceutical companies.

Fixed prices and price ceilings on medicines are determined based on profit margins that the relevant government authorities deem reasonable, the type and quality of the medicine, average production costs, and the prices of substitute medicines. The NDRC directly regulates the price of a portion of the medicines on the list, and delegates the provincial and regional price control authorities the authority to regulate the pricing of the rest of the medicines on the National List of Essential Drugs.

Further, pursuant to the Notice Regarding Further Improvement of the Order of Market Price of Pharmaceutical Products and Medical Services (關於進一步整頓藥品和醫療服務市場價格秩序的意見) jointly issued by the NDRC, the State Council Legislative Affairs Office (國務院法制辦公室) and the State Council Office for Rectifying (國務院糾風辦), the MOH, the SFDA, the Ministry of Commerce, the Ministry of Finance (財政部) and the Ministry of Labor and Social Security (勞動和社會保障部) on May 19, 2006, the PRC government exercises price control over pharmaceutical products included in the National Medical Insurance Drugs Catalogues and Provincial Medical Insurance Drugs Catalogues, and made an overall adjustment of their price of certain underpriced pharmaceutical products which were in demand for clinical use but were not produced in large quantities by manufacturers due to their low retail price levels. In particular, the retail price charged by hospitals at the country level or above cannot exceed 115% of the procurement cost of the relevant pharmaceutical products or 125% for certain traditional Chinese medicine products.

On November 9, 2009, the NDRC, the MOH and the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) jointly promulgated the Notice on Issuing Opinions on Reforming the Price Formation System of Medicine and Medical Services (關於印發改革藥品和醫療服務價格形成機制的意見的通知). According to this notice, in addition to drugs included in the National Medical Insurance Drugs Catalogues, Provincial Medical Insurance Drugs Catalogues and certain drugs whose production or trading tends to create monopolies, drugs listed in the National List of Essential Drugs are subject to PRC government price control. The prices of all other drugs are determined by the market and are not subject to PRC government price control.

On April 24, 2015, the newly amended Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) was passed by the 14th session of the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) and took effect on the day of promulgation. Under this law, the original Article 55 which stipulated, among others, that drugs the prices of which are fixed or guided by the government, the competent pricing department of the government shall, in accordance with the pricing principle stipulated in the Pricing Law of the People's Republic of China and based on average social cost, supply and demand in the market, and public affordability, rationally fix and adjust the prices, was deleted, thus the government has decided to stop directly fixing and guiding most of the drug's prices, and while the government no longer directly fixes or guides most of the drug's prices, the price of drugs must still comply with the regulations concerning the control on prices of drugs prescribed by the competent authority under the State Council.

On May 4, 2015, the NDRC, the NHFPC, the Ministry of Human Resources and Social Security of PRC (中華人民共和國人力資源和社會保障部), the Ministry of Industry and Information Technology of PRC (中華人民共和國工業和信息化部), the Ministry of Finance of PRC (中華人民共和國財政部), the

REGULATIONS

MOFCOM and the CFDA, jointly promulgated the Circular on Issuing the Opinions on Promoting Drug Price Reform (關於印發推進藥品價格改革意見的通知). Meanwhile, the NDRC issued the Circular on Announcing the Abolishment of Drug Price Files (《關於公佈廢止藥品價格文件的通知》) and the Circular on Strengthening the Supervision of the Medicine Market Price Behavior (《關於加強藥品市場價格行為監管的通知》).

Under these circulars, since June 1, 2015, except that the prices of narcotic and psychotropic drugs in category I will still be governed by the NDRC through fixing the ex-factory ceiling price and retail ceiling price, prices of other drugs will not be fixed by the government. Meanwhile, the government will still supervise drug pricing by improving the drug procurement mechanism, strengthening the cost control function of medical insurance system, and strengthening the supervision of medical behaviors and pricing behaviors, to establish a market-oriented drug price formulating mechanism.

Furthermore, any previous policies or provisions related to the administration of drug prices that is inconsistent with the Circular on Issuing the Opinions on Promoting the Drug Pricing Reform would be abolished.

Pharmaceutical Products' Advertising Restrictions

Pursuant to the Advertising Law of the PRC (中華人民共和國廣告法), which is promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on October 27, 1994 and which became effective on February 1, 1995, an advertisement of medicines or medical devices cannot in any way contain the following contents:

- any unscientific assertions or assurances concerning efficiency or uses;
- treatment efficiency or curative rate;
- comparisons with other medicines or medical apparatuses in efficacy or safety;
- titles or images of medical research institutes, academic institutions, medical organizations or experts, doctors or patients; and
- other contents that are prohibited by laws and administrative decrees.

The contents of an advertisement for a medicine should base on the specifications approved by the provincial level of public health administrative department or above. If advertisements which are subject to examination according to the Advertising Law of the PRC before publication are published without approval by advertisement examination organizations, the advertisement publishers shall stop publications, hand in the advertising income and may be imposed a fine ranging from the amount equal to the advertising income to five times of the amount of the advertising income.

Pursuant to Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法), pharmaceutical products advertisement shall be subject to approval by the drug regulatory department of provincial level where the enterprise is located, and once approved the pharmaceutical products advertisement shall be issued an approval number. No one shall launch pharmaceutical products advertisements without an approval number. Prescription medicine may be introduced in the medical or pharmaceutical professional publications jointly designated by the administrative department for health and the drug regulatory department under the State Council, but their advertisements may not be released by mass media or disseminated to the general public by other means. Any violation of the provision of this law related to the control over pharmaceutical products advertising shall be punished pursuant to the provision of the Advertising Law of the PRC (中華人民共和國廣告法), and the relevant drug regulatory department that issued the advertisement approval number shall withdraw the approval and shall, within one year, reject any application for approval of advertising for the drug in question.

REGULATIONS

Anti-bribery

According to Anti Unfair Competition Law of the PRC (中華人民共和國反不正當競爭法) (effective on December 1, 1993), business operator who bribes by giving properties or using any other method in order to sell or purchase the commodities in violation of the Criminal Law of the PRC, shall be investigated in accordance with the Criminal Law; even if the acts mentioned above do not constitute violation of the Criminal Law of the PRC (中華人民共和國刑法), the business operator may be subject to a fine in an amount from more than RMB10,000 to less than RMB200,000 in accordance with the facts and the illegal income should be confiscated.

The Interim Provisions on Banning Commercial Bribery (關於禁止商業賄賂行為的暫行規定) (“Interim Provisions”) (effective on November 15, 1996) provides a detailed scope of “properties or using any other method.” As defined in the Interim Provisions, the term “property” refers to cash and material objects, including property given by a business operator to another entity or individual in the form of promotion fees, publicity fees, sponsorship fees, research fees, service charges, consulting fees, commissions or reimbursements, in order to sell or purchase commodities, and the term “other means” refers to any means other than giving property, such as offering domestic or international tours or site visits in various forms. In addition, the Interim Provisions also made it clear that commercial bribery committed by any employee of a business operator for selling or purchasing commodities for the operator shall be regarded as the operator’s act. According to Criminal Law of the PRC (中華人民共和國刑法) (effective on October 1, 1997) and the Opinions of the Supreme People’s Court and the Supreme People’s Procuratorate on Issues Concerning the Application of Law in the Handling of Criminal Cases of Commercial Briberies (最高人民法院、最高人民檢察院關於辦理商業賄賂刑事案件適用法律若干問題的意見) (effective on November 20, 2008), business operators in the healthcare industry may be prosecuted with several charges due to commercial bribes, and these charges include: crime of acceptance of bribes by a non-governmental functionary, crime of offering bribes to a non-governmental functionary, crime of acceptance of bribes, crime of acceptance of bribes by an entity, crime of offering bribes, crime of offering bribes to an entity, crime of bribing as an intermediary and crime of offering bribes by an entity. If found guilty, such operator may be punished by sentence of a fixed term of imprisonment, life sentence or even death sentence

OTHER RELEVANT PRC LAWS AND REGULATIONS

Contract Law

According to the Contract Law of the People’s Republic of China (中華人民共和國合同法) promulgated by National People’s Congress on March 15, 1999 and became effective on October 1, 1999, a contract is an agreement between natural persons, legal persons or other organizations with equal standing, for the purpose of establishing, altering, or discharging a relationship of civil rights and obligations. A party is entitled to enter into a contract voluntarily under the law, and a lawfully formed contract becomes effective upon its formation. If a party fails to perform its obligations under a contract, or rendered non-conforming performance, it shall bear the liabilities for breach of contract by specific performance, cure of non-conforming performance or payment of damages, etc.

Product Liability and Protection of Consumers

Product liability claims may arise if the products sold have any harmful effect on consumers. The injured party can claim for damages or compensation. The General Principles of the Civil Law of the PRC

REGULATIONS

(中華人民共和國民法通則), which became effective on January 1, 1987, states that sellers of defective products causing property damage or personal injury shall bear civil liabilities.

The Product Quality Law of the PRC (中華人民共和國產品質量法), which was promulgated on February 22, 1993 and amended on July 8, 2000, aims to strengthen quality control of products and protect consumers' rights. Under this law, business operators who sell defective products may be subject to confiscation of earnings from such sales, the revocation of earnings from such sales, the revocation of business licenses and imposition of fines, and in severe circumstances, may be subject to criminal liability.

The Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法), which was promulgated on October 31, 1993 and amended on October 25, 2013, protects consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they sell goods and/or provide services to customers. In extreme situations, pharmaceutical business operators may be subject to criminal liability if their goods or services lead to the death or injuries of customers or other third parties.

Franchising Management

The Administrative Measures for Archival Filing of Commercial Franchises (商業特許經營備案管理辦法) came into force on May 1, 2007 (the "2007 Archival Filing Measures") and were replaced by the Administrative Measures for Archival Filing of Commercial Franchises (商業特許經營備案管理辦法) which became effective on February 1, 2012 (the "2012 Archival Filing Measures"). The Regulations on the Administration of Commercial Franchising (商業特許經營管理條例) came into force on May 1, 2007 (the "Administration Regulations").

Pursuant to the Regulations for the Administrative of Commercial Franchising (商業特許經營管理條例), franchisers engaged in franchise activities, shall own at least two self-operated retail stores and the operating time shall be more than one years. The franchisor shall, within 15 days since the date of the first time signing a franchise contract, submit files to the competent commercial departments for record. If the franchisers' record information changed, the franchiser shall apply to the relevant authority for registration of such alteration within 30 days from the date of occurrence of such changes; The franchiser shall report to the relevant authorities the information in relation to the conclusion, renewal and modification of the franchise agreements before March 31 of each year.

Pursuant to the 2007 Archival Filing Measures, which were applicable before February 1, 2012, franchisers which started business before May 1, 2007 shall register with competent departments of commerce within one year since the enforcement of the Regulations on the Administration of Commercial Franchising.

Pursuant to the 2012 Registration Measures, if any changes occur to the following information of franchisers, franchisers shall apply to the provincial department of commerce for the change of registration within 30 days from the date of occurrence of such changes: (i) the industry and commerce registration information; (ii) the operational resources; and (iii) the store network of the franchisees in the PRC.

PRC Laws and Regulations on Tax

The PRC taxes that are levied on our subsidiaries in the PRC mainly include enterprise income tax ("EIT"), value-added tax ("VAT") and business tax ("BT").

REGULATIONS

EIT

According to the EIT Law which was promulgated by the National People's Congress on March 16, 2007 and became effective on January 1, 2008, the income tax rate for both domestic and foreign-invested enterprise is 25% commencing January 1, 2008.

Under the PRC EIT Law, high and new technology Enterprises that require key state support are subject to the applicable enterprise income tax rate with a reduction of 15%.

On July 27, 2011, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation jointly issued the Notice on Tax Policy Issues concerning Further Implementing the Western China Development Strategy (關於深入實施西部大開發戰略有關稅收政策問題的通知). In western region, the income tax of the enterprises engaging in the encouraged business shall be levied at the rate of 15% from January 1, 2011 to December 31, 2020.

VAT

Pursuant to the Interim Regulation on the Value-added Tax of the PRC (中華人民共和國增值稅暫行條例) promulgated by the State Council on December 13, 1993 and amended on November 10, 2008 and which became effective on January 1, 2009, any entity or individual engaged in the sale of goods, the provision of specified services or the importation of goods in China is generally required to pay VAT on the added value derived during the process of manufacture, sale or service provided. VAT payable is calculated as "output VAT" minus "input VAT", and the rate of VAT is 17% or in certain limited circumstances, 13% depending on the products.

BT

Pursuant to the Interim Regulation on Business Tax of the PRC (中華人民共和國營業稅暫行條例) promulgated by the State Council on December 13, 1993 and amended on November 5, 2008, and its implementation rules, any entity or individual engaged in the taxable services, transferring intangible assets, or selling real estate within PRC is generally required to pay BT on the business turnover. The items and rates of business tax shall be implemented in accordance with the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation.

Provisions Relating To Foreign Exchange Administration

Pursuant to the Foreign Currency Administration Rules of the PRC (中華人民共和國外匯管理條例) promulgated by the State Council on January 29, 1996 and amended on August 1, 2008 and various regulations issued by the SAFE and other PRC regulatory agencies, Renminbi is freely convertible only to the extent of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion of Renminbi into a foreign currency, and remittance of the foreign currency outside the PRC.

On October 21, 2005, the SAFE issued the circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有

REGULATIONS

關問題的通知) (“Circular 75”), with effect from November 1, 2005. According to Circular 75, (i) a domestic resident, including a domestic resident natural person or a PRC company, must register with the local SAFE branch before it establishes or controls a Special Purpose Vehicles (“SPV”) for the purpose of conducting overseas equity financing; (ii) when a domestic resident contributes assets or equity interests to an overseas SPV, such domestic resident must register its interests in the overseas SPV or any change to its interest in the overseas SPV with the local SAFE branch; and (iii) when the overseas SPV undergoes a material change in capital outside the PRC, such as a change in share capital or merger and acquisition, the domestic resident must, within 30 days after the occurrence of such event, register such change with the local SAFE branch. Circular 75 applies retroactively.

Under the relevant rules, failure to comply with the registration procedures set forth in Circular 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject the relevant domestic resident to penalties under PRC foreign exchange administration regulations.

On July 14, 2014, the SAFE promulgated the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “Circular 37”) (prior to the issuance of Circular 37, the relevant governing rule was Circular 75), pursuant to which (a) a PRC resident (“PRC Resident”) must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“Overseas SPV”), that is directly established or indirectly controlled by the PRC Resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV’s PRC Resident shareholder(s), name of the Overseas SPV, term of operation, or any increase or reduction of the Overseas SPV’s registered capital by the SPV’s PRC Resident shareholder(s), share transfer or swap by the SPV’s PRC Resident shareholder(s), and merger or division. Pursuant to Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular on Further Simplified and Improved Policies for Foreign Exchange Administration for Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知), which was promulgated by the SAFE. On February 13, 2015, and will become effective on June 1, 2015, the management of foreign direct investment policies were mainly adjusted as follows:

- (1) cancelling two administrative approval items, namely, registration and verification of foreign exchange under domestic and overseas direct investment. Banks shall, in accordance with this Circular and the Operating Guidelines for Foreign Exchange Transactions for Direct Investment (直接投資外匯業務操作指引), directly verify and handle the registration of foreign exchange under domestic and overseas direct investment while the SAFE and its branches (collectively referred to as the foreign exchange authorities) shall conduct through banks indirect regulation over registration of foreign exchange for direct investment.
- (2) simplifying procedures for some transactions of foreign exchange for direct investment, mainly including, (i) simplifying registration management for confirmation of capital contribution by a foreign investor under domestic direct investment; (ii) cancelling filing of for overseas reinvestment; and (iii) cancelling annual check of foreign exchange for direct investment and replacing it with registration for accumulated equity.

REGULATIONS

M&A Rules

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission (國有資產監督管理委員會), the SAT, the SAIC, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which became effective on September 8, 2006 and was amended on June 22, 2009. According to the M&A Rules, a foreign investor is required to obtain necessary approvals from the MOFCOM or the department of commerce at the provincial level when it (i) acquires the equity of a domestic enterprise or subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; or (ii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets or purchases the assets of a domestic enterprise and then invest such asset to establish a foreign invested enterprise.

Patent Law

Under the revised Patent Law of the PRC (中華人民共和國專利法) promulgated on December 27, 2008 and took effect on October 1, 2009, there are three types of patents, including invention patents, design patents and utility model patents. Invention patents are valid for 20 years, while design patents and utility model patents are valid for ten years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products, or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

The patent prosecution system in China is different in many ways from that in other countries. The patent system in China uses the “first to file” principle. In addition, China requires absolute novelty for an invention to be patentable. Therefore, in general, a patent will be denied if it is publicly known in or outside of China.

Although patent rights are national rights, the Patent Cooperation Treaty to which China is a signatory, allows applicants in one country to seek patent protection for an invention that may simultaneously exist in a number of other member countries by filing a single international patent application. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as the subject of the initial application.

Trademark Law

Both the Trademark Law of the PRC (中華人民共和國商標法) promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) in 1982 and amended in 2001 and 2013, and the Regulation on Implementation of Trademark Law of the PRC (中華人民共和國商標法實施條例) promulgated by the State Council in 2002 and amended in 2014, give protection to the holders of registered trademarks. In the PRC, registered trademarks include commodity trademarks, service trademarks, collective marks and certificate marks.

Logistics Operation

In accordance with the Regulations on Road Transport (道路運輸條例), which became effective on July 1, 2004 and was amended on November 9, 2012, any enterprise engaged in the business of transporting goods must obtain a road transport business license from the road transport administration authority at the county level.

REGULATIONS

Regulation on Environmental Protection

The PRC government has adopted extensive environmental laws and regulations. There are national and local standards applicable to land rehabilitation, reforestation, emission control, discharge to surface and subsurface water and the generation, handling, storage, transportation, treatment and disposal of waste materials. Pursuant to the PRC Environmental Protection Law (中華人民共和國環境保護法) promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) that became effective on December 26, 1989, the State Environmental Protection Administration (國家環保總局, 現環境保護部) is empowered to formulate national environmental quality and discharge standards and monitor the PRC's environmental system at the national level. The environmental protection bureau at the county level and above is responsible for environmental protection within its jurisdiction. Local environmental protection bureaus may set local standards that are stricter than the national standards, in which case enterprises are required to comply with the stricter of the two sets of standards.

Besides, pharmaceutical manufacturers shall comply with the Discharge Standard of Water Pollutants for Pharmaceutical Industry (製藥工業水污染排放標準), which became effective on August 1, 2008. This standard systems include six categories: Fermentation products category, Chemical synthesis products category, Extraction products category, Chinese traditional medicine category, Bio-pharmaceutical category, Mixing/Compounding and formulation category, and focus on the control of the discharges of water pollutants of Pharmaceutical Manufacturing. Pharmaceutical manufacturers shall ensure that the discharges of their water pollutants observe the Standard.

Labor Protection

Pursuant to the Labor Law of the PRC (中華人民共和國勞動法) which became effective on January 1, 2005 and amended on August 27, 2009, employers must establish a comprehensive management system to protect the rights of their employees, including a system governing occupational health and safety to provide employees with occupational training to prevent occupational injury.

The Employment Contract Law of the PRC (中華人民共和國勞動合同法) was promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on June 29, 2007 and became effective on January 1, 2008, as amended on December 28, 2012 and came into effect on July 1, 2013, and the Implementing Regulations of the PRC Employment Contract Law (中華人民共和國勞動合同法實施條例) was promulgated by the State Council and became effective on September 3, 2008. The aforesaid laws and its implementing regulations govern the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of, and the amendment to, employment contracts. To establish an employment relationship, a written employment contract shall be signed. In the event that no written employment contract was signed at the time of establishment of an employment relationship, a written employment contract shall be signed within one month after the date on which the employer first engages the employee.

Under applicable PRC laws, rules and regulations, including the Social Insurance Law of the PRC (中華人民共和國社會保險法), promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on October 28, 2010, which became effective on July 1, 2011, the Interim Regulations on the Collection and Payment of Social Security Funds (社會保險費征繳暫行條例) promulgated by the State Council and which became effective on January 22, 1999, the Interim Measures concerning the Maternity Insurance (企業職工生育保險試行辦法) promulgated by the Ministry of Labor (勞動部) on December 14, 1994 and which became effective on January 1, 1995, the Regulations on Occupational Injury Insurance (工傷保險條例) promulgated by the State Council on April 27, 2003 and which became effective on January 1, 2004 and were amended on December 20, 2010,

REGULATIONS

the Regulations on Unemployment Insurance (失業保險條例) promulgated by the State Council and which became effective on January 22, 1999, and the Regulations on the Administration of Housing Accumulation Funds (住房公積金管理條例) promulgated by the State Council and which became effective on April 3, 1999, and were amended on March 24, 2002, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing accumulation funds. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up the deficit within a stipulated time limit.

HISTORY AND CORPORATE STRUCTURE

IMPORTANT MILESTONES

The following illustrates our major business development milestones and achievements:

Year	Event
1989	Pashun HK was incorporated in Hong Kong and engaged in the manufacturing and trading of medicines, as the starting point of our Group.
1995	Chengdu Pashun was established in the PRC to engage in the manufacturing of our pharmaceutical products, including our embrocation.
2001	Our Group started our distribution business.
2002	Our Group started our franchise retail pharmacy store business.
2003	Our Group started to conduct rural distribution in Chengdu.
2009	The number of our franchise retail pharmacy stores first reached 1,000.
2011	The Series A pre-IPO investment was completed. We completed the acquisition of Chunshengtang and therefore expanded our business to Northern China.
2012	The pre-IPO investment by V-drug was completed and we opened the first Japanese-style cosmeceutical stores in Western China as part of our business cooperation with V-drug.
2013	The number of our retail stores reached 30. We completed the acquisition of Baixintang and therefore expanded our business to Central China.
2014	We were recognized as one of the Top 100 Pharmaceutical Enterprises by the National Federation of Pharmaceutical Industry Association* (中華全國工商業聯合會醫藥業商會), in the 2013 List of China's Most Influential Enterprises in the Pharmaceutical Industry* (2013中國醫藥行業最具影響力榜單)

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY

History of our PRC subsidiaries

The history of our Group commenced in April, 1989 when Pashun HK was incorporated in Hong Kong to engage in manufacturing and trading of medicines by Mr. Chen and his spouse, Ms. Lee Yuk Suet (李玉雪) with their personal funds. For the experience of Mr. Chen, please refer to his biography in the section headed “Directors and Senior Management”. In February 1995, Chengdu Pashun was established in the PRC to engage in the manufacturing of our pharmaceutical products, including embrocation. Subsequently, as our Group continued to develop, Chengdu Kexun was established in February, 1995 to engage in the retail sales of our products. Currently, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store are the three principal operating subsidiaries of our Group. Subsequently, our Group further acquired Chunshengtang and Baixintang to strengthen our self-operated direct retail pharmacy stores and established Chengdu Keyi to conduct research and development of diagnostic reagent of hystercarcinoma. The following sets forth the corporate development of the principal operating subsidiaries of the Group in the PRC since their respective dates of establishment.

Chengdu Pashun

Chengdu Pashun was established in the PRC on February 23, 1995 as a sino-foreign joint venture with an initial registered capital of RMB10 million. Upon its establishment, Chengdu Pashun was held as to 95% by Pashun HK and 5% by Chengdu Pharmacy Institute* (成都市藥物研究所), a whole people owned enterprise* (全民所有制企業) primarily engaged in pharmaceutical research and an Independent Third Party. We cooperated with such institution during the establishment of Chengdu Pashun in order to satisfy the relevant requirement under the then applicable Company Law in the PRC that a company established in the PRC should have a minimum of two shareholders. As advised by our PRC advisors, Shu Jin Law Firm, the following defects on capital contribution upon Chengdu Pashun’s establishment were found from the capital verification reports, (i) part of the capital contribution was settled by third parties as instructed by Pashun HK; (ii) part of the capital contribution was settled by account receivables and creditor’s rights; and (iii) the first phase and second phase of the contribution to the registered capital of Chengdu Pashun were not settled on time according to the articles of association of Chengdu Pashun. In addition, the then applicable PRC regulation forbade medicine inspection institutes to engage in medicine manufacturing and sales. According to the confirmations issued by Sichuan Provincial Department of Commerce and Bureau of Investment & Promotion in Jinniu District, Chengdu City* (成都市金牛區投資促進局) dated April 10, 2014 and April 11, 2014, respectively, Chengdu Pashun is legally established and will not be punished as a result of these defects on capital contribution upon establishment as mentioned above. As advised by our PRC legal advisors, Shu Jin Law Firm, based on the above-mentioned confirmations and considering that Chengdu Pashun has passed each annual inspection since its establishment, the defects on capital contribution during its establishment are minor and will not affect the validity of Chengdu Pashun’s establishment and existence. Pursuant to an equity withdrawal agreement dated November 10, 2004, Chengdu Pharmacy Institute* (成都藥物研究所) transferred its 5% equity interest in Chengdu Pashun to Pashun HK for a consideration of RMB500,000 with reference to the then registered capital of Chengdu Pashun. Upon completion and settlement of such equity withdrawal, Chengdu Pashun became wholly-owned by Pashun HK on December 1, 2004.

On January 17, 2011, the registered capital of Chengdu Pashun was increased from RMB10 million to RMB43 million by additional cash contribution of Pashun HK. Such capital increase was duly completed and settled. On May 7, 2012, the registered capital of Chengdu Pashun was further increased to

HISTORY AND CORPORATE STRUCTURE

RMB74 million by additional cash contribution of Pashun HK. Such capital increase was duly completed and settled. Our PRC legal advisors, Shu Jin Law Firm, confirmed that, where applicable, all historical transfers in the shareholding of Chengdu Pashun during the Track Record Period have complied with the relevant laws and regulations and have obtained all necessary approvals from the relevant authorities.

Chengdu Kexun

Chengdu Kexun was originally established in the PRC as Chengdu Kexing Pharmacy Department* (成都科興藥業經營部), a whole people owned enterprise* (全民所有制企業). On May 25, 2001, such department was restructured and transformed into a limited liability company with a registered capital of RMB500,000 and was held as to 90% by Mr. Chen and 10% by Mr. Chan Yat Ming (陳一鳴), a son of Mr. Chen. On April 26, 2002, the registered capital of Chengdu Kexun was increased to RMB2.5 million by additional cash contribution of RMB1.8 million by Mr. Chen and RMB0.2 million by Mr. Chan Yat Ming (陳一鳴). Upon the completion and settlement of such capital increase, the shareholding held by Mr. Chen and Mr. Chan Yat Ming (陳一鳴) in Chengdu Kexun remained unchanged. On June 2, 2003, to cater for Chengdu Kexun's further development, the registered capital of Chengdu Kexun was further increased to RMB22.6 million by capitalization of loan amounting to RMB13.9 million due to Mr. Chen and RMB6.2 million due to Mr. Chan Yat Ming (陳一鳴) respectively. Upon the completion and settlement of such capital increase, Chengdu Kexun became held as to 71.46% by Mr. Chen and 28.54% by Mr. Chan Yat Ming (陳一鳴). In around early 2005, Mr. Chen wanted to spend some time to develop high-tech business in Wuhan and thought it would be more efficient and convenient for Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔), both nephews of Mr. Chen, and both based in Sichuan, to hold the equity interest in Chengdu Kexun to deal with the daily operations and management of Chengdu Kexun. Accordingly, pursuant to an equity interest transfer agreement dated March 1, 2005, Mr. Chen and Mr. Chan Yat Ming (陳一鳴) transferred all their equity interest in Chengdu Kexun to Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔) for a total consideration of RMB22.6 million, which was equal to the then registered capital of Chengdu Kexun. Upon completion of such equity transfer on March 25, 2005, Chengdu Kexun became held as to 70% by Mr. Zhang Wenxiang (張文翔) and 30% by Mr. Chen Yaoming (陳耀明). Pursuant to an equity interest transfer agreement dated March 15, 2007, Mr. Zhang Wenxiang (張文翔) transferred 30% equity interest in Chengdu Kexun to Chengdu Pashun for a consideration of RMB6.78 million with reference to the then registered capital of Chengdu Kexun. Upon completion of such equity transfer on April 5, 2007, Chengdu Kexun became held as to 30% by Chengdu Pashun, 40% by Mr. Zhang Wenxiang (張文翔), 30% by Mr. Chen Yaoming (陳耀明). In order to streamline our Group structure, pursuant to an equity interest transfer agreement dated April 16, 2007, Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔) transferred their respective equity interest in Chengdu Kexun to Chengdu Pashun for a consideration of RMB15.82 million with reference to the then registered capital of Chengdu Kexun. Upon completion of such equity transfer on April 19, 2007, Chengdu Kexun became wholly-owned by Chengdu Pashun. The consideration under the equity transfer from Mr. Chen and Mr. Chan Yat Ming (陳一鳴) to Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔) in March 2005 was not actually paid because Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔) are relatives of Mr. Chen and Mr. Chen did not demand payment at the time and such consideration was recorded as a debt owed by Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔) to Mr. Chen. Subsequently, during the equity transfers from Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔) to Chengdu Pashun in March 2007, Chengdu Pashun did not pay the consideration and used the above-mentioned debt to offset the consideration. As advised by our PRC advisers, Shu Jin Law Firm, given that these equity transfers were duly registered with the competent authority, Chengdu Kexun has not been punished by local SAIC, and Chengdu Kexun passed each annual inspection since its establishment, the historical shareholding changes of Chengdu Kexun are legal, valid

HISTORY AND CORPORATE STRUCTURE

and effective. Our PRC legal advisors, Shu Jin Law Firm, also confirmed that, where applicable, all historical transfers in the shareholding of Chengdu Kexun during the Track Record Period have complied with the relevant laws and regulations and have obtained all necessary approvals from the relevant authorities.

Chengdu Pashun Chain Store

Chengdu Pashun Chain Store was established on May 27, 2002 in the PRC as a domestic company with an initial registered capital of RMB2 million. Upon its establishment, Chengdu Pashun Chain Store was held as to 95% by Mr. Chen and 5% by Mr. Zhang Wenxiang (張文翔). On July 24, 2003, its registered capital was increased to RMB8 million by additional cash contribution of RMB5.7 million by Mr. Chen and RMB0.3 million by Mr. Zhang Wenxiang (張文翔). Upon the completion of such capital increase, the shareholding held by Mr. Chen and Mr. Zhang Wenxiang (張文翔) in Chengdu Pashun Chain Store remained unchanged. In around early 2005, Mr. Chen wanted to spend more to develop high-tech business in Wuhan and thought it would be more efficient and convenient for Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔), both nephews of Mr. Chen, and both based in Sichuan to hold the equity interests in Chengdu Pashun Chain Store to deal with the daily operations and management of Chengdu Pashun Chain Store. Accordingly, pursuant to an equity transfer agreement dated March 1, 2005, Mr. Chen transferred all his equity interest in Chengdu Pashun Chain Store to Mr. Chen Yaoming (陳耀明), and Mr. Zhang Wenxiang (張文翔) respectively for a consideration of RMB7,600,000 with reference to the registered capital of Chengdu Pashun Chain Store. Upon completion of such equity transfer on April 25, 2006, Chengdu Pashun Chain Store was held as to 70% by Mr. Zhang Wenxiang (張文翔) and 30% by Mr. Chen Yaoming (陳耀明). In order to streamline our Group structure, pursuant to an equity transfer agreement dated April 26, 2007, Mr. Zhang Wenxiang (張文翔) and Mr. Chen Yaoming (陳耀明) transferred all their respective equity interest in Chengdu Pashun Chain Store to Chengdu Pashun for a consideration of RMB7,600,000 with reference to the then registered capital of Chengdu Pashun Chain Store. Upon completion of such equity transfer on May 11, 2007, Chengdu Pashun Chain Store became wholly-owned by Chengdu Pashun. On July 9, 2008, the registered capital of Chengdu Pashun Chain Store was reduced to RMB5 million as part of its assets were separated from Chengdu Pashun Chain Store to establish Chengdu Yiming Investment Management Co., Ltd.* (成都億銘投資管理有限公司) to hold the state-owned land use right of a parcel which would not be used for the business operation of our Group. The capital decrease was duly completed on July 9, 2008. All the capital contribution for the establishment of Chengdu Pashun Chain Store in 2002 and capital increase in 2003 were actually settled by Mr. Chen, and the consideration under the equity transfer from Mr. Chen to Mr. Chen Yaoming (陳耀明) in 2005 was not actually paid. Accordingly, the above-mentioned capital contribution and consideration were recorded as a debt owed by Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔) to Mr. Chen. Subsequently, during the equity transfers from Mr. Chen Yaoming (陳耀明) and Mr. Zhang Wenxiang (張文翔) to Chengdu Pashun in 2007, Chengdu Pashun did not pay the consideration in order to offset the above-mentioned debt. As advised by our PRC advisers, Shu Jin Law Firm, given the historical establishment, capital increase and equity transfers were duly registered with the competent authority, Chengdu Pashun Chain Store has not been punished by the local administration of local SAIC, and Chengdu Pashun Chain Store passed each annual inspection since its establishment, the historical shareholding changes of Chengdu Pashun Chain Store are legal, valid and effective.

Our PRC legal advisors, Shu Jin Law Firm, also confirmed that, where applicable, all historical transfers in the shareholding of Chengdu Pashun Chain Store during the Track Record Period have complied with the relevant laws and regulations and have obtained all necessary approvals from the relevant authorities.

HISTORY AND CORPORATE STRUCTURE

Chunshengtang

Chunshengtang was established on February 22, 2010 in the PRC with the registered capital of RMB1 million. Since its establishment, Chunshengtang was owned as to 30% by Mr. Su Si (蘇肆), 50% by Ms. Liu Xiaohui (劉曉暉), 5% by Mr. Gong Ye (宮野), 5% by Ms. Zhang Zongyan (張宗彥), 5% by Ms. Li Shaojing (李紹婧) and 5% by Mr. Ma Congliang (馬聰亮), all of whom are Independent Third Parties, except for Mr. Su Si (蘇肆), our executive Director. On July 19, 2011, Ms. Liu Xiaohui (劉曉暉) entered into an equity transfer agreement with Mr. Su Si (蘇肆) pursuant to which Ms. Liu Xiaohui (劉曉暉) agreed to transfer 40% equity interest in Chunshengtang to Mr. Su Si (蘇肆) for a consideration of RMB400,000, equal to her investment corresponding to 40% registered capital in Chunshengtang. On the same date, each of Mr. Gong Ye (宮野), Ms. Zhang Zongyan (張宗彥), Ms. Li Shaojing (李紹婧) and Mr. Ma Congliang (馬聰亮) entered into equity transfer agreements with Mr. Su Si (蘇肆) to transfer their respective equity interest in Chunshengtang to Mr. Su Si (蘇肆), for a total consideration of RMB200,000 equal to their respective investment corresponding to 20% registered capital in Chunshengtang. Upon completion and settlement of these equity transfers on July 20, 2011, Chunshengtang was owned as to 90% by Mr. Su Si (蘇肆) and 10% by Ms. Liu Xiaohui (劉曉暉). On November 11, 2011, Chengdu Pashun Chain Store subscribed for RMB4,000,000 of the registered capital of Chunshengtang, representing 80% equity interest of Chunshengtang as enlarged by such subscription, in cash of RMB4,000,000. Upon completion and settlement of the above subscription on November 16, 2011, the registered capital of Chunshengtang was increased to RMB5 million and became held as to 80% by Chengdu Pashun Chain Store, 18% by Mr. Su Si (蘇肆) and 2% by Ms. Liu Xiaohui (劉曉暉). Our PRC legal advisors, Shu Jin Law Firm, confirmed that all historical transfers in the shareholding of Chunshengtang during the Track Record Period have complied with the relevant laws and regulations and have obtained all necessary approvals from the relevant authorities.

Baixintang

Immediately prior to our acquisition of Baixintang, Baixintang was wholly-owned by Ms. Gao Jing (高靜) and Ms. Zhou Zhihong (周志紅), both of whom are Independent Third Parties. In order to enhance our retail capabilities and expand our retail business to Central China and considering Baixintang held around ten established direct retail stores in Hubei, located in Central China at that time, on November 1, 2013, Chengdu Pashun Chain Store and Ms. Gao Jing (高靜) and Ms. Zhou Zhihong (周志紅), entered into an equity transfer agreement, pursuant to which Chengdu Pashun Chain Store agreed to acquire the entire equity interest in Baixintang for a consideration of RMB10,000,000 with reference to the then registered capital of Baixintang. Upon completion and settlement of such equity transfer on December 26, 2013, Baixintang became a wholly-owned subsidiary of our Group to operate self-operated direct retail pharmacies in Hubei area. Our PRC legal advisors, Shu Jin Law Firm, confirmed that the above mentioned equity transfer of Baixintang has complied with the relevant laws and regulations and has obtained all necessary approvals from the relevant authorities.

We acquired Chunshengtang and Baixintang to operate our self-operated retail pharmacies network in line of our business strategy to keep interacting with end-customers and to strengthen our brand and reputation. Chunshengtang contributed RMB6.9 million to our turnover for 2012, which represented 11.0% of the increase in our turnover from 2011 to 2012. As the acquisition of Baixintang was consummated on December 26, 2013, its impact on our statements of profit or loss for the year ended December 31, 2013 was immaterial.

HISTORY AND CORPORATE STRUCTURE

Chengdu Keyi

Chengdu Keyi was established on July 22, 2013 with a registered capital of RMB2 million. Since establishment, Chengdu Keyi has been wholly-owned by Chengdu Kexun. Chengdu Keyi is principally engaged in research and development of diagnostic reagent of hystero carcinoma.

History of our Company and our other subsidiaries

Our Company

Our Company was incorporated as a limited liability company in the Cayman Islands on May 3, 2011, with an authorized share capital of HK\$380,000 divided into 380,000,000 ordinary Shares of nominal value of HK\$0.001 each. At the time of the incorporation, Codan Trust Company (Cayman) Limited subscribed for one Share in the capital of our Company. On the same date, the said issued one Share of HK\$0.001 in the capital of our Company was transferred to Praise Treasure at par value. Upon completion of such transfer, our Company became wholly-owned by Praise Treasure, a wholly-owned company of Mr. Chen.

For details of further changes in the shareholding structure of our Company since incorporation, please see the paragraph headed “Corporate Reorganization” in this section of this prospectus.

Pashun BVI

Pashun BVI was incorporated as a limited liability company under the laws of BVI on May 23, 2011, with an authorized share capital of US\$50,000, divided into 50,000 ordinary Shares of nominal value of US\$1 each. At the time of the incorporation, the issued share capital of Pashun BVI was US\$50,000, divided into 50,000 ordinary shares of nominal value of US\$1 each and held by our Company. Pashun BVI is an investment holding company.

Pashun HK

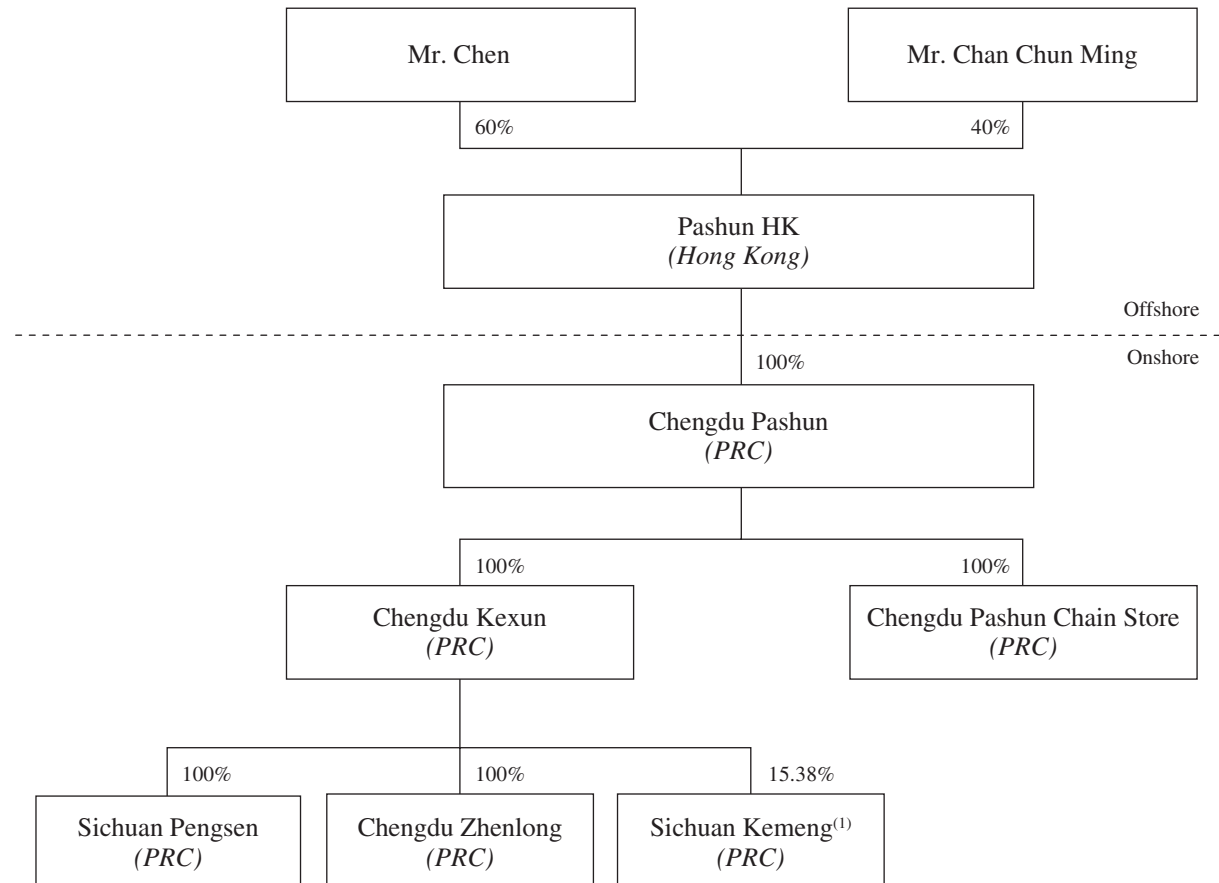
Pashun HK was incorporated as a limited liability company under the laws of Hong Kong on April 14, 1989, with an authorized share capital of HK\$1,000,000, divided into 10,000 ordinary Shares of nominal value of HK\$100 each. Upon incorporation, Pashun HK issued 10,000 shares and was held as to 50% by Mr. Chen and 50% by Ms. Lee Yuk Suet (李玉雪), Mr. Chen’s spouse. On May 9, 2000, as Mr. Chen originally intended to arrange his two sons, namely Mr. Chan Yat Ming (陳一鳴) and Mr. Chan Chun Ming (陳俊鳴) to gradually take up the operations of our Group and arrange them to become shareholders of Pashun HK in order to incentivize them, Mr. Chen transferred 1,000 shares in Pashun HK to Mr. Chan Yat Ming (陳一鳴) and 4,000 shares to Mr. Chan Chun Ming (陳俊鳴), while Ms. Lee Yuk Suet (李玉雪) transferred 5,000 shares in Pashun HK to Mr. Chan Yat Ming (陳一鳴), at par value. Upon completion and settlement of such share transfer, Pashun HK was held as to 60% by Mr. Chan Yat Ming (陳一鳴) and 40% by Mr. Chan Chun Ming (陳俊鳴) on May 9, 2000. After Mr. Chan Yat Ming (陳一鳴) passed away, Mr. Chen acquired 6,000 shares in Pashun HK from the administrator of the estate of Mr. Chan Yat Ming’s (陳一鳴) on July 9, 2008. Accordingly, Pashun HK was then held as to 60% by Mr. Chen and 40% by Mr. Chan Chun Ming (陳俊鳴). On December 23, 2011, the authorized share capital of Pashun HK was increased to HK\$10,000,000, divided into 100,000 shares with a par value of HK\$100 each.

HISTORY AND CORPORATE STRUCTURE

For details of the further changes in the shareholding structure of Pashun HK during the Corporate Reorganization, please see the paragraph headed “Corporate Reorganization” in this section of this prospectus.

GROUP STRUCTURE PRIOR TO CORPORATE REORGANIZATION AND THE PRE-IPO INVESTMENTS

The corporate chart below illustrates the beneficial shareholders and subsidiaries of our Group immediately prior to the Corporate Reorganization and the pre-IPO investments:



Note:

(1) The remaining 84.62% equity interest in Sichuan Kemeng was held by Independent Third Parties.

HISTORY AND CORPORATE STRUCTURE

CORPORATE REORGANIZATION

In order to rationalise our organizational structure, our Group underwent the Corporate Reorganization prior to the Listing which involves the following steps:

- (a) Our Company was incorporated as a limited liability company in the Cayman Islands on May 3, 2011, with an authorized share capital of HK\$380,000 divided into 380,000,000 ordinary Shares of nominal value of HK\$0.001 each. At the time of the incorporation, Codan Trust Company (Cayman) Limited subscribed for one Share in the capital of our Company. On the same date, the said issued one Share of HK\$0.001 in the capital of our Company was transferred to Praise Treasure at par value. Upon such transfer, our Company became wholly-owned by Praise Treasure, a wholly-owned company of Mr. Chen and an investment holding company.
- (b) Pashun BVI was incorporated as a limited liability company under the laws of BVI on May 23, 2011, with an authorized share capital of US\$50,000, divided into 50,000 ordinary Shares of nominal value of US\$1 each. At the time of the incorporation, the issued share capital of Pashun BVI was US\$50,000, with 50,000 ordinary shares of nominal value of US\$1 each and held by our Company.
- (c) On November 11, 2011, Chengdu Pashun Chain Store subscribed for RMB4,000,000 of the registered capital of Chunshengtang, representing 80% equity interest of Chunshengtang as enlarged by such subscription, for a consideration of RMB4,000,000. Upon completion and settlement of the above subscription on November 16, 2011, Chunshengtang became held as to 80% by Chengdu Pashun Chain Store, 18% by Mr. Su Si (蘇肆) and 2% by Ms. Liu Xiaohui (劉曉暉).
- (d) On December 23, 2011, Mr. Chan Chun Ming (陳俊鳴) transferred 4,000 shares of Pashun HK at par value, representing 40% interest of Pashun HK, to Mr. Chen, for a consideration of HK\$400,000. Upon completion and settlement of such transfer, Pashun HK became wholly-owned by Mr. Chen.
- (e) On December 23, 2011, Pashun BVI capitalized an amount of HK\$9,790,980 due from Pashun HK by way of capitalization issue, pursuant to which Pashun BVI applied for, and was issued, 90,000 shares of Pashun HK, representing 90% of the enlarged issued share capital of Pashun HK. Upon completion and settlement of the above capitalization issue, Mr. Chen and Pashun BVI held 10% and 90% of Pashun HK respectively.

HISTORY AND CORPORATE STRUCTURE

- (f) On December 30, 2011, Mr. Chen transferred 10,000 shares in the capital of Pashun HK, representing 10% of Pashun HK, to Pashun BVI, in consideration of Pashun BVI procuring our Company to issue 857,087 shares of our Company to Praise Treasure, a wholly-owned company of Mr. Chen. Upon completion and settlement of the above transfer, Pashun BVI held 100% of Pashun HK. At the same time, the issued share capital of our Company was increased to HK\$857.088, divided into 857,088 ordinary Shares of nominal value of HK\$0.001 each, and became wholly-owned by Praise Treasure.
- (g) On December 31, 2011, Hong Kong Investments, our Company, Praise Treasure and Mr. Chen, among others, entered into the Series A Share Subscription Agreement, pursuant to which Hong Kong Investments agreed to subscribe for 102,912 Series A Shares for a consideration of US\$8,000,000. On the same date, Hong Kong Investments and Praise Treasure entered into a share transfer agreement, pursuant to which Hong Kong Investments agreed to acquire from Praise Treasure 154,368 ordinary Shares for a consideration of US\$12,000,000, with the intention that such ordinary Shares will be reclassified and redesignated as Series A Shares upon completion. Hong Kong Investments nominated Advance Apex to take up all the Series A Shares it agreed to acquire pursuant to the Series A Share Subscription Agreement and the above-mentioned share transfer agreement dated December 31, 2011. For further details, please refer to the paragraph headed “Pre-IPO Investments” in this section of this prospectus.
- (h) On January 6, 2012, V-drug, our Company, Praise Treasure and Mr. Chen, among others, entered into Series B Share Subscription Agreement, pursuant to which V-drug agreed to subscribe for 40,000 Series B Shares for a consideration of US\$5,000,000. For further details, please refer to the paragraph headed “Pre-IPO Investments” in this section of this prospectus.
- (i) On January 9, 2012, Jumbo Success and Praise Treasure entered into a share transfer agreement, pursuant to which Jumbo Success agreed to acquire from Praise Treasure 50,000 ordinary Shares for a consideration of US\$3,731,300. For further details, please refer to the paragraph headed “Pre-IPO Investments” in this section of this prospectus.

HISTORY AND CORPORATE STRUCTURE

- (j) ***Disposal of Sichuan Kemeng*** In April 2011, Chengdu Kexun subscribed for 15.38% equity interest in Sichuan Kemeng, an Independent Third Party, by contributing RMB20 million in cash, based on arm's length negotiation with other investors which are all Independent Third Parties with reference to its registered capital. We originally invested in Sichuan Kemeng to form regional strategic alliance among private pharmaceutical enterprises to strengthen our reputation and position. However, as Sichuan Kemeng ended up mainly engaged in investment, which was not in line with our expectation while we, as a minority shareholder, could not control Sichuan Kemeng to satisfy our original investment purpose. Therefore, in order to focus our resources on our core business, we decided to dispose our equity interest in Sichuan Kemeng. On March 1, 2012, Chengdu Kexun entered into an equity transfer agreement with Mr. Wang Hao (王浩), an Independent Third Party, to transfer all its equity interest in Sichuan Kemeng to Mr. Wang Hao (王浩), for a consideration of RMB20 million, equal to its original investment in Sichuan Kemeng. Upon completion and settlement of such equity transfer, our Group ceased to hold any equity interest in Sichuan Kemeng on March 7, 2012. Our PRC legal advisors, Shu Jin Law Firm, confirmed that all historical share subscription and equity transfer in the shareholding of Sichuan Kemeng by Chengdu Kexun have complied with the relevant laws and regulations and have obtained all necessary approvals from the relevant authorities.
- (k) ***Disposal of Chengdu Zhenlong*** Immediately prior to the disposal, Chengdu Zhenlong was wholly-owned by Chengdu Kexun. Chengdu Zhenlong was originally principally engaged in manufacturing traditional Chinese medicine. However, the then PRC laws did not allow foreign investment in Chinese herbal pieces and on the other hand, our Group preferred to focus more on its principal business, therefore, on December 16, 2011, Chengdu Kexun and Ms. Cheng Jun (程俊), an Independent Third Party, entered into an equity transfer agreement, pursuant to which Chengdu Kexun agreed to transfer the entire registered capital of Chengdu Zhenlong to Ms. Cheng Jun (程俊) for a consideration of RMB5,000,000, which was equal to the then registered capital of Chengdu Zhenlong. Chengdu Zhenlong did not contribute materially to the financial statements of our Group when it was a subsidiary of our Group. Upon completion and settlement of such equity transfer on January 9, 2012, Chengdu Zhenlong ceased to be a subsidiary of our Group. Our PRC legal advisors, Shu Jin Law Firm, confirmed that the above mentioned equity transfer of Chengdu Zhenlong has complied with the relevant laws and regulations and has obtained all necessary approvals from the relevant authorities.

HISTORY AND CORPORATE STRUCTURE

- (l) **Disposal of Sichuan Pengsen** Immediately prior to the disposal, Sichuan Pengsen was wholly-owned by Chengdu Kexun. Sichuan Pengsen was originally principally engaged in medicines distribution for our franchise retail pharmacy stores in Luzhou (瀘州), Sichuan. However, our Group subsequently realized that, due to its remote location, it was in practice difficult for our Group to control and manage the franchise retail pharmacy stores there and the revenue generated did not meet our costs invested in managing those franchise retail pharmacy stores. On June 14, 2012, Chengdu Kexun and Ms. Zheng Meilin (鄭美玲), an Independent Third Party, entered into an equity transfer agreement, pursuant to which Chengdu Kexun agreed to transfer the entire registered capital of Sichuan Pengsen to Ms. Zheng Meilin (鄭美玲) for a consideration of RMB1,500,000 with reference to the then net assets value of Sichuan Pengsen immediately prior to the equity transfer. Sichuan Pengsen did not contribute materially to the financial statements of our Group when it was a subsidiary of our Group. Upon completion and settlement of such equity transfer on June 29, 2012, Sichuan Pengsen ceased to be a subsidiary of our Group. Our PRC legal advisors, Shu Jin Law Firm, confirmed that, the above mentioned equity transfer of Sichuan Pengsen has complied with the relevant laws and regulations and has obtained all necessary approvals from the relevant authorities.
- (m) On July 22, 2013, Chengdu Keyi was established in the PRC with the registered capital of RMB2 million and has been wholly-owned by Chengdu Kexun since establishment.
- (n) On November 1, 2013, Chengdu Pashun Chain Store entered into an equity transfer agreement with Ms. Gao Jing (高靜) and Ms. Zhou Zhihong (周志紅), both of whom are Independent Third Parties pursuant to which Chengdu Pashun Chain Store agreed to acquire the entire equity interest in Baixintang for a consideration of RMB10,000,000 with reference to the then registered capital Baixintang. Upon completion and settlement of such equity transfer on December 26, 2013, Baixintang became a wholly-owned subsidiary of our Company.

Each of the share transfers mentioned above, including the acquisition of Chunshengtang, Baixintang and disposal of Chengdu Zhenlong, Sichuan Pengsen and Sichuan Kemeng, was properly and legally completed and settled.

Our Corporate Reorganization was completed on December 26, 2013.

HISTORY AND CORPORATE STRUCTURE

PRE-IPO INVESTMENTS

We have introduced several pre-IPO investors prior to the Listing by way of (i) Praise Treasure transferring Shares; and (ii) our Company issuing and allotting Shares to such pre-IPO investors.

- (a) On December 31, 2011, Hong Kong Investments, our Company, Praise Treasure and Mr. Chen, among others, entered into the Series A Share Subscription Agreement, pursuant to which Hong Kong Investments agreed to subscribe for 102,912 Series A Shares for a consideration of US\$8,000,000. On the same date, Hong Kong Investments and Praise Treasure entered into a share transfer agreement, pursuant to which Hong Kong Investments agreed to acquire from Praise Treasure 154,368 ordinary Shares for a consideration of US\$12,000,000, with the intention that such ordinary Shares will be reclassified and redesignated as Series A Shares upon completion. Hong Kong Investments nominated Advance Apex to take up all the Series A Shares it agreed to acquire pursuant to the Series A Share Subscription Agreement and the above-mentioned share transfer agreement dated December 31, 2011.
- (b) On January 6, 2012, V-drug, our Company, Praise Treasure and Mr. Chen, among others, entered into Series B Share Subscription Agreement, pursuant to which V-drug agreed to subscribe for 40,000 Series B Shares for a consideration of US\$5,000,000.
- (c) On January 9, 2012, Jumbo Success and Praise Treasure entered into a share transfer agreement, pursuant to which Jumbo Success agreed to acquire from Praise Treasure 50,000 ordinary Shares for a consideration of US\$3,731,300.
- (d) On January 17, 2012, our Company and V-drug, among others, entered into the Business Cooperation Agreement in relation to Japanese-style cosmeceutical stores.
- (e) On February 24, 2012, our Company, Mr. Chen, Praise Treasure, Advance Apex, V-drug and Jumbo Success, among others, entered into the Shareholders' Agreement in relation to the respective rights and obligations as shareholders of our Company upon completion of the pre-IPO investments.
- (f) On March 13, 2014, our Company, Mr. Chen, Praise Treasure, Advance Apex, V-drug and Jumbo Success, among others, entered into the Series B Deed of Amendment (2014), pursuant to which (i) Praise Treasure irrevocably and unconditionally agreed to transfer 2,000 Shares to V-drug pursuant to the business alliance put option arrangement between Praise Treasure and V-drug under the Shareholders' Agreement, which was completed on the same date; and (ii) the Shareholders' Agreement was amended such that the business alliance put option, V-drug put option and obligators call options under the Shareholders' Agreement would be terminated upon a qualified IPO, which would be reinstated if a qualified IPO does not occur by December 31, 2014 or such other date as agreed by parties.

HISTORY AND CORPORATE STRUCTURE

- (g) On May 22, 2014, Praise Treasure, Hong Kong Investments, Advance Apex, our Company, and Mr. Chen, among others, entered into the Series A Deed of Amendment (2014), pursuant to which, Hong Kong Investments and Advance Apex agreed that (i) the share subscription price adjustment mechanism as contained in the Series A Share Subscription Agreement was deleted; (ii) redemption will arise if the qualified IPO does not occur by December 31, 2014 instead of December 31, 2012; and (iii) redemption arising out of profit requirement for the year of 2011 as contained in the Series A Share Subscription Agreement was deleted, all of which would be reinstated if a qualified IPO does not occur by December 31, 2014 or such other date as agreed by the parties.

- (h) Since a qualified IPO did not occur by December 31, 2014, all clauses which were amended or deleted pursuant to the Series A Deed of Amendment (2014) were reinstated accordingly. On February 12, 2015, the original parties to the Series A Deed of Amendment (2014) entered into the Series A Deed of Amendment (2015) mainly to reiterate the Series A Deed of Amendment (2014). According to the Series A Deed of Amendment (2015), (i) the share subscription price adjustment mechanism as contained in the Series A Share Subscription Agreement was deleted; (ii) redemption will arise if the qualified IPO does not occur by December 31, 2015 instead of December 31, 2012; and (iii) redemption arising out of profit requirement for the year of 2011 as contained in the Series A Share Subscription Agreement was deleted, all of which would be reinstated if a qualified IPO does not occur by December 31, 2015 or such other date as agreed by the parties.

- (i) Since a qualified IPO did not occur by December 31, 2014, all clauses which were amended or deleted pursuant to the Series B Deed of Amendment (2014) were reinstated accordingly. On February 12, 2015, the original parties to the Series B Deed of Amendment (2014) entered into the Series B Deed of Amendment (2015) mainly to reiterate the Series B Deed of Amendment (2014). According to the Series B Deed of Amendment (2015), the business alliance put option, V-drug put option and obligators call options under the Shareholders' Agreement would be terminated upon a qualified IPO, which would be reinstated if a qualified IPO does not occur by December 31, 2015 or such other date as agreed by the parties.

HISTORY AND CORPORATE STRUCTURE

For the purpose of the pre-IPO investments, the “qualified IPO” refers to a fully underwritten initial public offering of the Shares of the Company on the main board of the Stock Exchange, Shanghai Stock Exchange or another international stock exchange approved by the investors.

A summary of the key particulars of the investment by our pre-IPO investors is set out below:

Name of investor	Advance Apex (a nominee of Hong Kong Investments)	V-drug	Jumbo Success
Background of investor:	Investment holding company incorporated in BVI and is owned as to 50% by Mr. Cheung Chi Mang, 47% by Mr. Li Ho Tan, and 3% by Fast Sino Holdings Limited, which is wholly-owned by Mr. Yu Wentao, an Independent Third Party. Advance Apex was an Independent Third Party before making investment in our Company.	Investment holding company incorporated in Hong Kong and is indirectly wholly-owned by Chubu Yakuhin Co., Ltd which is in turn 100% beneficially owned by Valor Co., Ltd, a listed company on the Tokyo Stock Exchange. V-drug is an Independent Third Party apart from holding Shares in our Company and being a business partner of our Company.	Investment holding company incorporated in BVI and is ultimately 100% owned by Mr. Li Ho Tan, our non-executive Director. Jumbo Success was an Independent Third Party before making investment in our Company.
Shareholding in our Company:	102,912 Series A Shares, prior to the Capitalization Issue and the Listing.	40,000 Series B Shares, prior to the Capitalization Issue and the Listing. All Series B Shares will be converted into ordinary Shares immediately prior to the Listing.	50,000 ordinary Shares, prior to the Capitalization Issue and the Listing.
	154,368 ordinary Shares which were reclassified as Series A Shares on February 27, 2012, prior to the Capitalization Issue and the Listing.	2,000 ordinary Shares were transferred from Praise Treasure to V-drug on March 13, 2014 pursuant to the Series B Deed of Amendment.	Jumbo Success will hold 37,500,000 Shares representing approximately 3.75% of the total issued share capital of our Company immediately upon the Listing (not taking into account any Shares to be issued upon exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme).
		V-drug will hold 31,500,000 Shares, representing approximately 3.15% of the total issued share capital of our Company immediately upon the Listing (not taking into account any Shares to be issued upon exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme).	upon exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme).

All Series A Shares will be converted into ordinary Shares immediately prior to the Listing.

Advance Apex will hold 192,960,000 Shares representing approximately 19.30% of the total issued share capital of our Company immediately upon the Listing (not taking into account any Shares to be issued upon exercise of the Over-allotment Option or any options to be granted under the Share Option Scheme).

HISTORY AND CORPORATE STRUCTURE

Name of investor	Advance Apex (a nominee of Hong Kong Investments)	V-drug	Jumbo Success
Date of relevant agreement:	December 31, 2011 May 22, 2014 (Series A Deed of Amendment (2014)) February 12, 2015 (Series A Deed of Amendment (2015))	January 6, 2012 March 13, 2014 (Series B Deed of Amendment (2014)) February 12, 2015 (Series B Deed of Amendment (2015))	January 9, 2012
Consideration:	US\$8,000,000, and shall be satisfied by Hong Kong Investments (i) waiving the repayment obligations of our Company in respect of an aggregate amount of US\$6,000,000 towards Hong Kong Investments; and (ii) paying the remaining balance of US\$2,000,000 in cash to our Company at completion.	cash consideration of US\$5,000,000	US\$3,731,300, which shall be satisfied by Jumbo Success (i) waiving the repayment obligations of Praise Treasure in respect of an aggregate amount of RMB10,000,000 (equivalent to US\$1,538,462) towards Jumbo Success; and (ii) paying in cash the remaining balance in US\$ (or its equivalent in HK\$ or RMB as agreed between the parties) to Praise Treasure by one or more instalments by no later than March 31, 2012.
Basis of determination of consideration:	Arm's length negotiation determined by reference to valuation of our business as agreed between the parties, the growth potential of our business	Arm's length negotiation determined by reference to valuation of our business as agreed between the parties, the growth potential of our business	Arm's length negotiation determined by reference to valuation of our business as agreed between the parties, the growth potential of our business
Payment date:	February 2, 2012	February 27, 2012	January 18, 2012
Investment cost per Share:	Approximately US\$0.10 per Share (equivalent to approximately HK\$0.77 per Share). Based on the indicative Offer Price range, representing a discount of approximately 23.00% to HK\$1.00 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 45.00% to HK\$1.40 per Share, being the upper end of the stated Offer Price range.	Approximately US\$0.16 per Share (equivalent to approximately HK\$1.25 per Share). Based on the indicative Offer Price range, representing a premium of approximately 25.00% to HK\$1.00 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 10.71% to HK\$1.40 per Share, being the upper end of the stated Offer Price range.	Approximately US\$0.10 per Share (equivalent to approximately HK\$0.77 per Share). Based on the indicative Offer Price range, representing a discount of approximately 23.00% to HK\$1.00 per Share, being the lower end of the stated Offer Price range, and a discount of approximately 45.00% to HK\$1.40 per Share, being the upper end of the stated Offer Price range.

HISTORY AND CORPORATE STRUCTURE

Name of investor	Advance Apex (a nominee of Hong Kong Investments)	V-drug	Jumbo Success
Use of proceeds:	The proceeds have been fully utilised as general working capital and merger and acquisition opportunities.	The proceeds have been utilised to opening and operation of Japanese-style cosmeceutical chain stores.	The proceeds have been fully utilised as general working capital and merger and acquisition opportunities.
Special rights:	<p>(1) Adjustment of subscription amount under the Series A Share Subscription Agreement: Mr. Chen and Praise Treasure have undertaken to Advance Apex that (i) the operating net profit of our Group for the 12 months ended December 31, 2010 shall not be less than RMB45,000,000 (“Target 2010 Profit”); and (ii) the operating net profit of our Group for the 12 months ended December 31, 2011 shall not be less than RMB75,000,000 (“Target 2011 Profit”). In the event that the audited operating net profit of our Group after tax and extraordinary items for the 12 months ended December 31, 2010 (“2010 Profit”) is less than the Target 2010 Profit, Advance Apex shall be entitled to request Mr. Chen and/or Praise Treasure to make a cash payment to Advance Apex calculated by reference to the following formula: $(1 - 2010 \text{ Profit} \div \text{Target 2010 Profit}) \times \text{Subscription Amount} \times 1.1$ (Actual number of days of capital being used by the Company \div 360), provided that no cash payment shall be made to the Investor if the difference between the 2010 Profit and the Target 2010 Profit is equal to or less than 10%. In the event that the audited operating net profit of our Group after tax and extraordinary items for the 12 months ended December 31, 2011 (“2011 Profit”) is less than the Target 2011 Profit, the Investor shall be entitled to request Mr. Chen and/or Praise Treasure to make a cash payment to the Investor calculated by reference to the following formula: $(1 - 2011 \text{ Profit} \div \text{Target 2011 Profit}) \times \text{Subscription Amount} \times 1.1$ (Actual number of days of capital being used by the Company \div 360), provided that no cash payment shall be made to the Investor if the difference between the 2011 Profit and the Target 2011 Profit is equal to or less than 10%.</p> <p>Such subscription adjustment mechanism was triggered but was conditionally waived by Advance Apex pursuant to the Series A Deed of Amendment (2014) and Series A Deed of Amendment (2015).</p> <p>(2) Appointment of director: As long as Advance Apex remains interested in more than 50% of the then outstanding Series A Shares, Advance Apex shall have the right to nominate one director (“Series A Director”) of our Board.</p>	<p>(1) Business Cooperation Agreement: Under the Business Cooperation Agreement, (i) V-Drug will subscribe for the Series B Shares for a total consideration of USD 5,000,000 pursuant to the Series B Share Subscription Agreement, the consideration of which will be used by the Group to open and operate Japanese-style cosmeceutical stores; (ii) the Group will open and operate Japanese-style cosmeceutical stores through Chengdu Pashun Chain Store and V-drug, through V-drug Chengdu, which is a company to be established by V-drug in Chengdu under the Business Cooperation Agreement and was subsequently established in May 2012 and was named as V-drug Chengdu Co., Ltd. (美多康(成都)商贸有限公司), V-drug (through V-drug Chengdu) will provide consultancy services to the Group in connection with operation management, product purchase channel and product mix of Japanese-style cosmeceutical stores; and (iii) the Group will sell the non-pharmaceutical commodities (all commodities other than pharmaceuticals, including without limitation, cosmetics, health foods, daily-use supplies and foods) supplied by V-drug, through V-drug Chengdu, in its Japanese-style cosmeceutical stores, self-operated retail pharmacies and franchised stores.</p> <p>In connection with the Business Cooperation Agreement, the following three special rights were agreed and stipulated in the Shareholders’ Agreement:</p> <p>(a) Business alliance put option: Upon the occurrence of the <i>first business alliance put event</i> ((a) the annual revenue attributable to all Japanese-style cosmeceutical stores or the non-pharmaceutical products ratio during (i) 12 months ending December 12, 2012 is less than 70% of the projected figures contemplated in the business plan; or (ii) the 12 months period ending on December 31, 2013, is less than 70% of the projected figures contemplated in the business plan), and (b) the Business Cooperation Agreement is terminated in accordance with the terms thereof), V-drug shall be entitled at any time thereafter to require Mr. Chen and/or Praise Treasure to purchase all Shares then held and/or controlled by V-drug at the first business cooperation put price.</p>	<p>(1) Information rights: As long as Jumbo Success continues to hold any equity securities in our Company, our Company shall supply the information such as audited consolidated financial statements of our Group, audited financial statements of our Group, unaudited quarterly consolidated management accounts of our Group, unaudited quarterly management account of our Group, quarterly cash planning of our Group, monthly management accounts of our Group, such other operational and financial information relating to our Group to Jumbo Success.</p> <p>(2) Most favoured terms: If our Company or any Group member(s) completes a future financing with terms more favourable to investors than the transactions contemplated in the Series A Share Subscription Agreement and / or the Series B Share Subscription Agreement and Shareholders’ Agreement (“Investor Favourable Terms”), the relevant pre-IPO investor shall be entitled to elect the followings: (i) enjoy the Investor Favourable Terms and have them applied to relevant investors’ rights under the Shareholders’ Agreement; (ii) require Mr. Chen or Praise Treasure to transfer certain Shares to the relevant investor at nil consideration; and (iii) require Mr. Chen or Praise Treasure to make a cash compensation to the relevant investor.</p>

HISTORY AND CORPORATE STRUCTURE

Name of investor	Advance Apex (a nominee of Hong Kong Investments)	V-drug	Jumbo Success
	<p>(3) Reserve matters: Without the affirmative vote or prior written consent of each of the Series A Director and Series B Director, certain matters, including but not limited to amendment or adoption any change to the memorandum and/or the articles regarding the rights, preferences of the Series A Shareholders or Series B Shareholders, any merger or other structural change of share capital, or any other similar transactions of our Company, any change including but not limited to increases, reductions, consolidations or subdivisions in the registered capital or share capital of the Company or any entities of our Group, disposal of equity interest or material assets, acquisition of new business, adoption of share incentive plan, dividend declaration and distribution, auditor appointment or dismissal, shall not be effected.</p> <p>(4) Information rights: As long as Advance Apex continues to hold any equity securities in our Company, our Company shall supply the information such as audited consolidated financial statements of our Group, audited financial statements of our Group, unaudited quarterly consolidated management accounts of our Group, unaudited quarterly management account of our Group, quarterly cash planning of our Group, monthly management accounts of our Group, such other operational and financial information relating to our Group to Advance Apex.</p> <p>(5) Most favoured terms: If our Company or any Group member(s) completes a future financing with terms more favourable to investors than the transactions contemplated in the Series A Share Subscription Agreement and / or the Series B Share Subscription Agreement and Shareholders' Agreement ("Investor Favourable Terms"), the relevant pre-IPO investor shall be entitled to elect the following: (i) enjoy the Investor Favourable Terms and have them applied to relevant investors' rights under the Shareholders' Agreement; (ii) require Mr. Chen or Praise Treasure to transfer certain Shares to the relevant investor at nil consideration; and (iii) require Mr. Chen or Praise Treasure to make a cash compensation to the relevant investor.</p> <p>(6) Dividends: The holders of Series A Shares shall be entitled to pro-rata share of the retained earnings of the Company as of the completion date. No dividends or other distributions, whether or not in cash, shall be paid with respect to any ordinary Shares unless all accrued and unpaid dividends on the Series A Shares have been fully paid.</p>	<p>First business cooperation put price refers to (a) before the Listing: US\$5,000,000 less 50% of accumulated losses of all the Japanese-Style Cosmeceutical Stores, and (b) on or after the Listing: as determined based on the average closing price of the Shares of our Company for the past 10 trading days immediately prior to the business cooperation put notice.</p> <p>Upon the occurrence of the <i>second business alliance put event</i> ((a) the annual revenue attributable to all the Japanese-style cosmeceutical stores or the non-pharmaceutical products ratio during the 12 months ending December 31, 2014 is less than 70% of the projected figures contemplated in the business plan and (b) the Business Cooperation Agreement is terminated in accordance with the terms thereof) OR the <i>third business alliance put event</i> ((a) the annual revenue attributable to all the Japanese-style cosmeceutical stores or the non-pharmaceutical products ratio during any 12 months ending on after December 31, 2014 is less than 50% of the projected figures contemplated in the business plan and (b) the Business Cooperation Agreement is terminated in accordance with the terms thereof), V-drug shall be entitled at any time thereafter to require Mr. Chen and/or Praise Treasure to purchase business alliance put shares at the second business alliance put price, free from any encumbrance, by a business alliance put notice.</p>	<p>(3) Other preferential rights: Jumbo Success is also entitled to other customary preferential rights, such as the right of first refusal, right of co-sale, pre-emptive rights.</p> <p>Termination of special rights: All the above special rights can only be exercised if the Listing does not take place and will be terminated upon Listing.</p>

HISTORY AND CORPORATE STRUCTURE

Name of investor	Advance Apex (a nominee of Hong Kong Investments)	V-drug	Jumbo Success
	<p>(7) Liquidation: the holders of Series A Shares shall be entitled to receive the Preference Amount (as defined below), <i>pari passu</i> and prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the ordinary Shares or any other class or series of shares by reason of their ownership of such shares. Preference Amount means the amount equal to the subscription price plus all declared but unpaid dividends and distributions on each Series A Share calculated up to and including the date of commencement of the liquidation event.</p> <p>(8) Conversion: (a) right to convert: each Series A Share shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such Share, into such number of fully-paid and non-assessable ordinary Shares as is determined by dividing the Subscription Price by the then applicable conversion price (determined as in the Series A Share Subscription Agreement) in effect at the time the notice of conversion is issued by the holder of Series A Shares to the Company. (b) automatic conversion: each Series A Share shall automatically be converted into such number of fully-paid and non-assessable ordinary Shares as is determined by dividing the Subscription Price by the then applicable Conversion Price (determined as provided in the Series A Share Subscription Agreement); (i) immediately before the completion of a qualified IPO; or (ii) upon prior majority Series A Shares holders approval.</p> <p>(9) Redemption: If not converted, the Series A Shares may, subject to the applicable legal restrictions on the Company's redemption of its Shares, be redeemed in cash at the option of the holder thereof at any time where (a) the Company has not completed a Qualified IPO by December 31, 2012 (or such later date as agreed upon by all Shareholders and the Company in writing) following Completion or (b) after the occurrence of an Event of Default (as defined below), upon written demand from the holder of any Series A Shares to the Company; (c) the 2010 Profit was less than 70% of the Target 2010 Profit or the 2011 Profit was less than 70% of the Target 2011 Profit. The redemption price for each Series A Share which shall be equal to the aggregate amount of (a) the Subscription Price, (b) a premium which would give the holder of such Series A Shares an internal return at a simple interest rate of ten per cent (10%) per annum in respect of the subscription price from the completion date up to and including the date of redemption, and (c) all declared but unpaid dividends and distributions on such Series A Shares up to and including the date of redemption.</p>	<p>Second business cooperation put price refers to (a) before the Listing: the consolidated net asset value of our Company as determined by the latest available audited consolidated financial statements of our Group as adjusted by the management accounts of our Group up to the end of the calendar month immediately prior to the date of the business cooperation put notice, and (b) on or after the Listing: as determined based on the average closing price of the Shares of our Company for the past 10 trading days immediately prior to the business cooperation put notice.</p> <p>(b) V-drug put option: Mr. Chen and Praise Treasure jointly and severally grant a right to V-drug that upon the occurrence of the V-drug put event (any material breach of the Shareholders' Agreement, the Series B Share Subscription Agreement or Business Cooperation Agreement, as the case may be, by our Company, our Group members, Mr. Chen or Praise Treasure, which have a material effect on our Group), V-drug shall be entitled to require Mr. Chen and/or Praise Treasure ("Obligators") to purchase all Shares then held and/or controlled by V-drug at the V-drug put price, free from any encumbrance by a written notice.</p> <p>The calculation of V-drug Put price is set forth as follows:</p> <p style="text-align: center;"> $\text{US\\$5,000,000} \times (1+20\%) \times (\text{number of days since the completion ("D")}/365)$ where D shall be capped at 1,825 (i.e. 5x365) </p>	

HISTORY AND CORPORATE STRUCTURE

Name of investor	Advance Apex (a nominee of Hong Kong Investments)	V-drug	Jumbo Success
	<p>(10) Other preferential rights: Advance Apex is also entitled to other customary preferential rights, as long as the right of first refusal, right of co-sale, pre-emptive rights.</p> <p>Termination of special rights: All the above special rights can only be exercised if the Listing does not take place and will be terminated upon Listing.</p>	<p>(c) Obligators call option: V-drug grants a right to Mr. Chen and Praise Treasure, on a joint and several basis, that upon the occurrence of certain defaulting events under the Business Cooperation Agreement which will cause the termination of the Business Cooperation Agreement, one of Mr. Chen and Praise Treasure, if as the non-defaulting party, shall be entitled to require V-drug to sell all of their Shares then held and/or controlled by V-drug at the price of US\$1, free from any encumbrance by a written notice.</p> <p>Under the Shareholders' Agreement, these three special rights shall survive after the Listing. However, relevant clauses have been amended under the Series B Deed of Amendment (2014) and Series B Deed of Amendment (2015), so that each of the business alliance put option, V-drug put option and obligators call option under the Shareholders' Agreement would be terminated upon a qualified IPO as long as a qualified IPO occurs by December 31, 2014 or such other date as agreed by parties.</p> <p>(2) Appointment of director: As long as V-drug remains interested in more than 50% of the then outstanding Series B Shares, V-drug shall have the right to nominate one director ("Series B Director") of our Board.</p> <p>(3) Reserve matters: Without the affirmative vote or prior written consent of each of the Series A Directors and Series B Director, certain matters, including but not limited to amendment or adoption any change to the memorandum and/or the articles regarding the rights, preferences of the Series A Shareholders or Series B Shareholders, any merger or other structural change of share capital, or any other similar transactions of our Company, any change including but not limited to increases, reductions, consolidations or subdivisions in the registered capital or share capital of the Company or any entities of our Group, disposal of equity interest or material assets, acquisition of new business, adoption of share incentive plan, dividend declaration and distribution, auditor appointment or dismissal, shall not be effected.</p>	

HISTORY AND CORPORATE STRUCTURE

Name of investor

Advance Apex (a nominee of Hong Kong Investments)

V-drug

Jumbo Success

(4) **Information rights:** As long as V-drug continues to hold any equity securities in our Company, our Company shall supply the information such as audited consolidated financial statements of our Group, audited financial statements of our Group, unaudited quarterly consolidated management accounts of our Group, unaudited quarterly management account of our Group, quarterly cash planning of our Group, monthly management accounts of our Group, such other operational and financial information relating to our Group to V-drug.

(5) **Most favoured terms:** If our Company or any Group member(s) completes a future financing with terms more favourable to investors than the transactions contemplated in the Series A Share Subscription Agreement and / or the Series B Share Subscription Agreement and Shareholders' Agreement ("Investor Favourable Terms"), the relevant pre-IPO investor shall be entitled to elect the followings: (i) enjoy the Investor Favourable Terms and have them applied to relevant investors' rights under the Shareholders' Agreement; (ii) require Mr. Chen or Praise Treasure to transfer certain Shares to the relevant investor at nil consideration; and (iii) require Mr. Chen or Praise Treasure to make a cash compensation to the relevant investor.

(6) **Dividends:** The holders of Series B Shares shall be entitled to pro-rata shares of the retained earnings of the Company as of the completion date. No dividends or other distributions, whether or not in cash, shall be paid with respect to any ordinary Shares unless all accrued and unpaid dividends on the Series B Shares have been fully paid.

HISTORY AND CORPORATE STRUCTURE

Name of investor

Advance Apex (a nominee of Hong Kong Investments)

V-drug

Jumbo Success

(7) **Liquidation:** the holders of Series B Shares and the Series A Shares shall be entitled to receive the Preference Amount (as defined below), *pari passu* and prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the ordinary Shares or any other class or series of shares by reason of their ownership of such shares. Preference Amount means, in respect of Series B Shares, the amount equal to the subscription price for each Series B Share then held by the holder(s) of Series B Shares plus all declared but unpaid dividends and distributions on each Series B Share calculated up to and including the date of commencement of the liquidation event, and, in respect of the Series A Shares, the amount equal to US\$77.74 for each Series A Share then held by the holder(s) of the Series A Share plus all declared but unpaid dividends and distributions on each Series A Share calculated up to and including the date of commencement of the liquidation event.

(8) **Conversion:** (a) right to convert: each Series B Share shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such Share, into such number of fully-paid and non-assessable ordinary Shares as is determined by dividing the Subscription Price by the then applicable conversion price (determined under the Series B Share Subscription Agreement) in effect at the time the notice of conversion is issued by the holder of Series B Shares to the Company; and (b) automatic conversion: Each Series B Share shall automatically be converted into such number of fully-paid and non-assessable ordinary Shares as is determined by dividing the Subscription Price by the then applicable conversion price (determined under the Series B Share Subscription Agreement): (i) immediately before the completion of a qualified IPO; or (ii) upon prior majority Series B Shares holders approval.

HISTORY AND CORPORATE STRUCTURE

Name of investor	Advance Apex (a nominee of Hong Kong Investments)	V-Drug	Jumbo Success
		<p>(9) Redemption: If not converted, the Series B Shares may, subject to the applicable legal restrictions on the Company's redemption of its Shares, be redeemed in cash at the option of the holder thereof at any time after the occurrence of an event of default, upon written demand from the holder of any Series B Shares to the Company. The redemption price for each Series B Share which shall be equal to the aggregate amount of (a) the subscription price, (b) a premium which would give the holder of such Series B Shares an internal return at a simple interest rate of ten per cent (10%) per annum in respect of the subscription price from the completion date up to and including the date of redemption, and (c) all declared but unpaid dividends and distributions on such Series B Shares up to and including the date of redemption.</p> <p>(10) Other preferential rights: V-Drug is also entitled to other customary preferential rights, as long as the right of first refusal, right of co-sale, pre-emptive rights.</p> <p>Termination of special rights: all the above special rights, including the business alliance put option, V-Drug put option, and obligators call option in relation to the Business Cooperation Agreement can only be exercised if the Listing does not take place and will be terminated upon Listing.</p> <p>six months from the Listing</p> <p>Since the shareholding of V-Drug in our Company upon the Listing will be less than 10%, the Shares held by V-Drug would be considered as part of the public float</p>	<p>N/A</p> <p>The Shares held by Jumbo Success would not be considered as part of the public float since Jumbo Success is wholly-owned by Mr. Li Ho Tan, our non-executive Director, and therefore a connected person of our Company upon the Listing</p>
Lock-up: six months from the Listing		
Public Float:	The Shares held by Advance Apex would not be considered as part of the public float since Advance Apex will be one of our substantial shareholders upon the Listing and therefore a connected person upon the Listing		

HISTORY AND CORPORATE STRUCTURE

Strategic Benefits

We consider that the introduction of the various investors into our Group is favourable to the long-term development of our Group. The enlargement of our Shareholder base by the introduction of these investors who have different backgrounds and experiences can ensure important business decisions are only made after thorough discussions from different perspectives. In addition, and in particular, we consider (i) Hong Kong Investments (or its nominee company, Advance Apex) is a professional institutional investor which can provide us with professional advice on our Group's development; and (ii) V-drug, together with its parent company Chubu Yakuhin Co., Ltd, a drug store operator operating more than 200 stores in Japan and with its beneficial owner, Valor Co., Ltd. (a listed company on Tokyo Stock Exchange), a well-known retail company based in Japan mainly operating supermarket chain, can strengthen our fame and position and broaden our business opportunities and such cooperation would enable us to benefit from Chubu Yakuhin's and Valor Co., Ltd's experience and expertise in pharmaceutical retail operations.

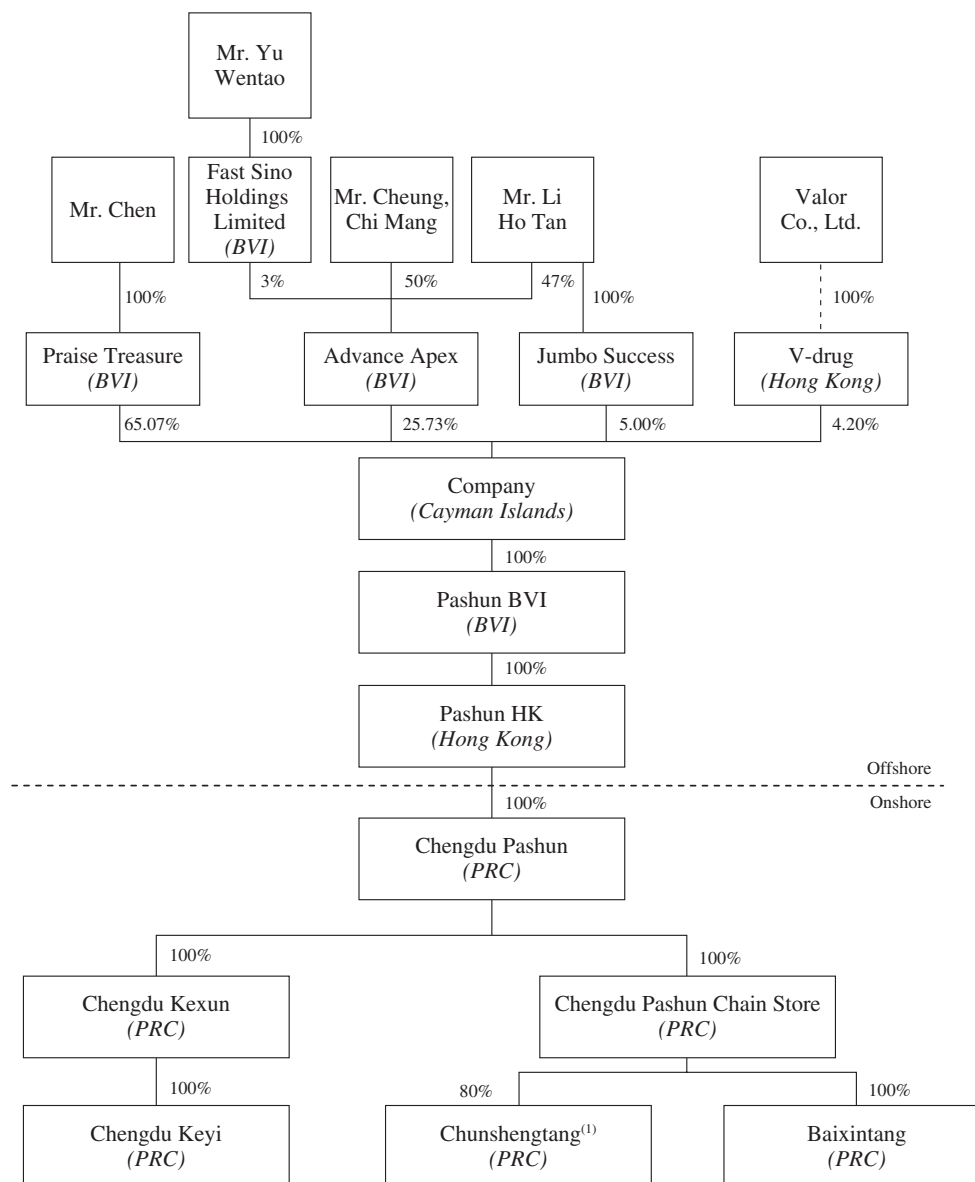
Sole Sponsor's Confirmation

The Sole Sponsor is of the view that each of the pre-IPO investments mentioned above are in compliance with the Interim Guidance on Pre-IPO Investments HKEx-GL29-12 announced by the Listing Committee on October 13, 2010, Guidance Letters HKEx-GL44-12 (issued in October 2012) and HKEx-GL43-12 (issued in October 2012 and updated in July 2013).

HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE AFTER CORPORATE REORGANIZATION AND PRE-IPO INVESTMENTS AND BEFORE LISTING

The corporate structure of our Group immediately after the Corporate Reorganization, the pre-IPO investments, and immediately prior to the Global Offering (assuming the Over-allotment Option is not exercised and none of the options granted the Share Option Scheme is exercised) and the Capitalization Issue is set out below:



“-----”: indirectly own

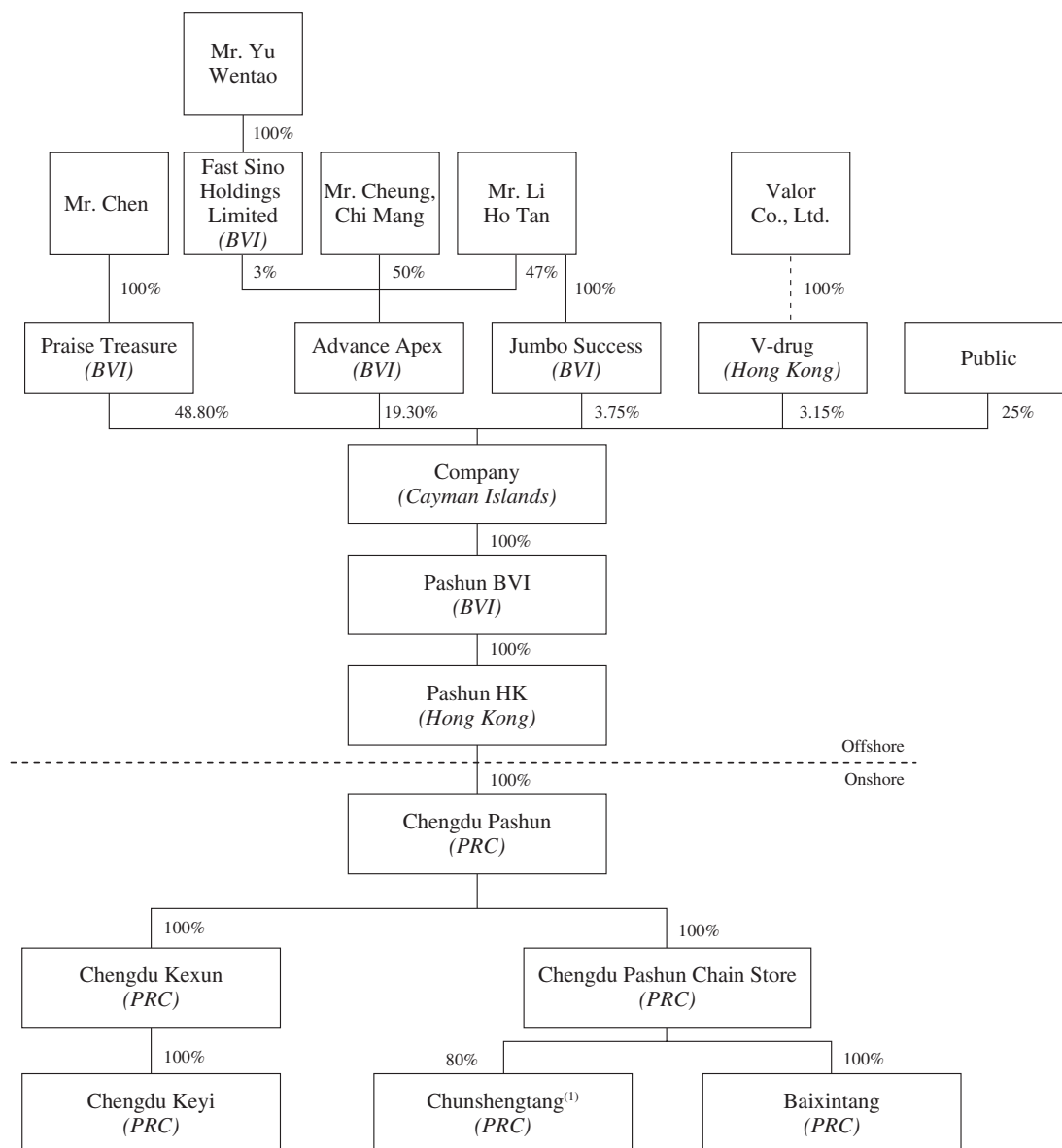
Note:

- (1) The remaining 18% equity interest in Chunshengtang is held by Mr. Su Si (蘇肆), one of our executive Directors and 2% is held by Ms. Liu Xiaohui (劉曉暉), an Independent Third Party.

HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE AFTER CORPORATE REORGANIZATION AND PRE-IPO INVESTMENTS AND UPON LISTING

The corporate structure of our Group immediately after the Corporate Reorganization, the pre-IPO investments, the Global Offering (assuming the Over-allotment Option is not exercised and none of the options granted under the Share Option Scheme is exercised) and the Capitalization Issue is set out below:



“ - - - - ”: indirectly own

Note:

- (1) The remaining 18% equity interest in Chunshengtang is held by Mr. Su Si (蘇肆), one of our executive Directors and 2% is held by Ms. Liu Xiaohui (劉曉暉), an Independent Third Party.

HISTORY AND CORPORATE STRUCTURE

SAFE REGISTRATION

Pursuant to the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “Circular 37”), promulgated by SAFE and which became effective on July 14, 2014, (a) a PRC resident (“PRC Resident”) must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“Overseas SPV”), that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV’s PRC Resident shareholder(s), name of the Overseas SPV, term of operation, or any increase or reduction of the Overseas SPV’s registered capital, share transfer or swap, and merger or division. Pursuant to Circular 37, failure to comply with these registration procedures may result in penalties.

Our PRC legal advisors, Shu Jin Law Firm, have confirmed that since Mr. Chen is a HK resident, the Circular 37 is not applicable to him.

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

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, SAIC, the CSRC and the SAFE, jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which became effective on September 8, 2006 and was amended on June 22, 2009. According to the M&A Rules, a foreign investor is required to obtain necessary approvals from the MOFCOM or the department of commerce at the provincial level when it (i) acquires the equity of a domestic enterprise or subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; or (ii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets or purchases the assets of a domestic enterprise and then invests such assets to establish a foreign invested enterprise.

Our PRC advisers, Shu Jin Law Firm, have confirmed that we are not subject to the MOFCOM approval under the M&A Rules.

Furthermore, our PRC legal advisors, Shu Jin Law Firm, have confirmed that we have complied with all applicable PRC rules and regulations and have obtained all relevant approvals from PRC government authorities for the Corporate Reorganization and the Listing.

BUSINESS

OVERVIEW

We are an integrated pharmaceutical company based in southwestern China with operations in three business segments: pharmaceutical distribution, self-operated retail pharmacy and pharmaceutical manufacturing. We ranked third in China in terms of the number of franchise retail pharmacy stores under our “Pa Shun” brand as of December 31, 2013, according to NFS, an independent market research institution. We were one of the first companies to be engaged in rural pharmaceutical distribution in Chengdu, Sichuan province, and we ranked first in rural pharmaceutical distribution in Chengdu, Sichuan province in terms of total sales for 2013, according to NFS. Our self-manufactured Zhenghonghua embrocation had over 40% of the market share in China in each of 2011, 2012 and 2013 as measured by retail sales revenue, representing the largest market share in the Zhenghonghua embrocation product category, according to NFS. Zhenghonghua embrocation in turn accounted for 0.06%, 0.05% and 0.05% of the total pharmaceutical product sales in China for 2011, 2012 and 2013, respectively, as measured by retail sales revenue, according to NFS.

We are an established distributor of pharmaceutical and healthcare products based in southwestern China. Our pharmaceutical distribution business includes sales to: (i) pharmaceutical wholesalers; (ii) franchise retail pharmacy stores; and (iii) hospitals and other medical institutions in rural areas. As of December 31, 2014, we had approximately 2,690 customers for our pharmaceutical distribution business, including approximately 700 pharmaceutical wholesalers, 1,420 franchise retail pharmacy stores operating under our “Pa Shun” brand, and 560 hospitals and other medical institutions in rural areas in Chengdu, Sichuan province. According to NFS, as a result of the PRC government’s policies to encourage retail pharmacy chain stores, there has been a growing trend for independent retail pharmacy stores to join a franchise chain. We believe that as an established distributor of pharmaceutical and healthcare products based in southwestern China with a well-recognized brand in Sichuan province, we are well-positioned to benefit from market growth and industry consolidation opportunities.

We have one of the longest operating history and one of the largest distribution network in rural pharmaceutical distribution in Chengdu, Sichuan province. We commenced to engage in rural pharmaceutical distribution in Chengdu, Sichuan province in 2003. Over the last ten years, we have grown into one of the largest rural pharmaceutical distributor in the region. In addition, our rural pharmaceutical distribution network covers five of the major rural pharmaceutical distribution markets in Chengdu, Sichuan province, making us one of the largest amongst the rural pharmaceutical distributors in the region. Through our rural pharmaceutical distribution business, we have developed valuable knowledge of the rural pharmaceutical market in the Chengdu region.

We had 27 self-operated retail pharmacy stores under our “Pa Shun” brand in operation in Sichuan, Hebei and Hubei provinces as of December 31, 2014. In addition, we had seven self-operated retail pharmacy stores that were in the process of relocating. As of the Latest Practicable Date, we had re-opened two stores following their relocation, entered into lease agreements for two stores and were in the process of selecting sites for the other three stores. In support of our plan to expand our self-operated retail pharmacy store network and gain market share in pharmaceutical retail, we acquired Chunshengtang in November 2011 and Baixintang in December 2013. The acquisitions were our major first steps to expand our self-operated retail pharmacy network.

BUSINESS

We currently manufacture and sell six pharmaceutical products, Zhenghonghua embrocation (正紅花油), Honghua embrocation (紅花油), Baihua embrocation (白花油), Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏), Antipruritic Ointment for Cicatrix (疤痕止癢軟化乳膏) and Ampicillin Capsules (氨苄西林膠囊). Our Zhenghonghua embrocation (正紅花油) had the largest market share in the Zhenghonghua embrocation product category in the PRC in each of 2011, 2012 and 2013 in terms of retail sales revenue, according to NFS.

Our turnover increased from RMB712.1 million for the year ended December 31, 2012 to RMB794.3 million for the year ended December 31, 2013, and further to RMB847.2 million for the year ended December 31, 2014 representing a CAGR of 9.1% from 2012 to 2014.

OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths:

As an established distributor of pharmaceutical and healthcare products based in southwestern China, we are well-positioned to benefit from market growth and industry consolidation opportunities.

We believe that we are well-positioned to benefit from the strong growth, regulatory reform and market consolidation currently underway in the PRC healthcare industry. The PRC healthcare market is one of the fastest-growing healthcare markets in the world, with growth driven by China's overall economic growth and its aging population. The PRC government has in recent years issued a number of policies and measures to support the development of the pharmaceutical and healthcare industries, which has further fueled the growth in total healthcare spending in the PRC. As set forth in China's 12th Five-Year Plan and the "Development Policy for the Pharmaceutical Industry during the period from 2010 to 2015" (2010-2015年全國醫藥流通行業發展規則), the PRC government encourages consolidation in the pharmaceutical and healthcare industries and supports the expansion of large pharmaceutical distributors through acquisitions of smaller ones.

We are an established distributor of pharmaceutical and healthcare products based in southwestern China. As of December 31, 2014, we had approximately 2,690 customers for our pharmaceutical distribution business, including approximately 700 pharmaceutical wholesalers, 1,420 franchise retail pharmacy stores operating under our "Pa Shun" brand, and 560 hospitals and other medical institutions in rural areas in Chengdu, Sichuan province. We distribute pharmaceutical and healthcare products to all the franchise retail pharmacy stores operating under our "Pa Shun" brand. According to NFS, we ranked third in China in 2013 in terms of the number of franchise retail pharmacy stores under our brand. According to NFS, as a result of the PRC government's policies to encourage retail pharmacy chain stores, there has been a growing trend for independent retail pharmacy stores to join a franchise chain in order to obtain GSP certification at relatively lower costs, reduce operating expenses and benefit from the franchise chain's brand recognition. We believe that as an established distributor of pharmaceutical and healthcare products based in southwestern China with a well-recognized brand in Sichuan province, we are well-positioned to benefit from market growth and industry consolidation opportunities. We believe that our leading competitive position will help us leverage the favorable policy environment to further increase our market share.

BUSINESS

We have one of the longest operating history and one of the largest distribution network in rural pharmaceutical distribution in Chengdu, Sichuan province.

We were one of the first company to be engaged in rural pharmaceutical distribution in Chengdu, Sichuan province, and we ranked first in rural pharmaceutical distribution in Chengdu, Sichuan province in terms of total sales for 2013, according to NFS. We commenced our rural pharmaceutical distribution business in Chengdu, Sichuan province in 2003. Since then, we have built one of the largest rural pharmaceutical distribution network in Chengdu, Sichuan province covering five of the major rural pharmaceutical distribution markets in the region. Through our rural pharmaceutical distribution business, we have developed valuable knowledge of the rural pharmaceutical market in the Chengdu, Sichuan province. With our current market position, local knowledge and proven track record, we believe we have a first-mover advantage over new entrants in this market and have competitive advantages against our competitors in obtaining distribution rights in additional areas in Sichuan province and/or in tender processes for rural distribution rights in Chengdu, Sichuan province organized by relevant local governments.

Our “Pa Shun” brand is widely recognized in the pharmaceutical industry in China, which helps us to attract franchisees and end customers.

We commenced to operate under our “Pa Shun” brand in 1989 and have gradually built “Pa Shun” into a brand that is widely recognized in the pharmaceutical industry in China. Our brand recognition is built on the number of our franchise retail pharmacy stores, which according to NFS, was the third largest in China as of December 31, 2013. In addition, our extensive retail network for our self-manufactured products sold under our “Pa Shun” brand cover 30 provinces, municipalities and autonomous regions in China, and one of our main self-manufactured product, Zhenghonghua embrocation (正紅花油), enjoyed wide market recognition amongst the target customers. Furthermore, under our “Pa Shun” brand, we have received numerous awards over the years, including “Top 10 of the Pharmaceutical Chain Enterprises in China of Year 2014” (2014年度中國醫藥連鎖藥店十強企業), “Top 12 of Retail Chain Stores in Pharmacy Supply Industry in China in terms of Turnover of Year 2011 (2011年度中國藥品流通行業零售連鎖企業銷售收入排序第12名)” and “Top 13 of the Top 100 Retail Pharmacy Chain Enterprises in China of Year 2010” (2010年度中國藥品零售連鎖百強企業第13名)”. Please see “— Awards and Recognitions” for further details. We believe our success of establishing “Pa Shun” as a widely recognized brand and recognition from various industry leading authorities has contributed to the growth in our number of franchisees and helped us attract end customers.

We have the largest market share in the Zhenghonghua embrocation product category in China.

We currently manufacture and sell six pharmaceutical products, Zhenghonghua embrocation (正紅花油), Honghua embrocation (紅花油), Baihua embrocation (白花油), Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏), Antipruritic Ointment for Cicatrix (疤痕止癢軟化乳膏) and Ampicillin Capsules (氨苄西林膠囊). During the Track Record Period, our Zhenghonghua embrocation (正紅花油) had a market share of over 40% in the PRC in each of 2011, 2012 and 2013 in terms of total retail sales, accounting for the largest market share in its product category, according to NFS.

According to NFS, as a result of the implementation of Administration Measures for Drug Registration (藥品註冊管理辦法) and the tightening of approval process for pharmaceutical manufacturing due to quality and safety concerns, it takes over three years for the CFDA to grant manufacturing permit for an ordinary pharmaceutical product. As a result, the number of our competitors in the PRC in this product sector is and will likely remain limited.

BUSINESS

According to NFS, we are able to generate relatively high gross profit margin for our Zhenghonghua embrocation (正紅花油) primarily because (i) we are able to control costs of production due to stable supplies of raw materials and mature production technologies; (ii) our target markets generally do not overlap with our major competitors' target markets; and (iii) unlike our major competitors, we do not have a national sales agent in charge of the sales and distribution of our Zhenghonghua embrocation (正紅花油), which lowers costs of sales and allows us to retain more profit compared to the sales model adopted by our major competitors.

Our large product portfolio and strong relationships with a broad network of suppliers allow us to meet diversified customer needs.

For the year ended December 31, 2014, we sourced over 13,154 products, including Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices and healthcare products, from pharmaceutical manufacturers and commercial suppliers, which primarily include agents, distributors and pharmaceutical wholesalers. In addition to pharmaceutical products, we offer certain high profit margin products, such as healthcare products, food products, herbal drinks, medical devices and cosmeceutical products. This diversified product mix enables us to enhance our profit margin as well as that of our pharmaceutical wholesaler customers and franchise retail pharmacy stores. In addition, our large product offerings allow us to meet diversified customer needs, create a “one-stop” option for both end customers and pharmaceutical wholesaler customers, help us to attract franchisees for our branded franchise retail pharmacy stores and strengthen end customer loyalty.

We have established close and stable business relationships with a broad network of pharmaceutical manufacturers and commercial suppliers of pharmaceutical and healthcare products in the PRC, such as Jointown Pharmaceutical Group Co., Ltd. (九州通醫藥集團股份有限公司), subsidiaries of Guangzhou Pharmaceuticals Corporation (廣州醫藥集團有限公司), Sinopharm Group Co. Ltd. (國藥控股股份有限公司) and Chongqing Taiji Industry Group Co., Ltd. (重慶太極集團實業股份有限公司). As of the Latest Practicable Date, we had supply contracts with approximately 180 pharmaceutical manufacturers and 300 commercial suppliers, and over 59.4% of them had had business relationships with us for more than three years. This broad and stable network of suppliers helps to ensure the secure and timely supply of our products, which in turn further drives the growth of our pharmaceutical distribution business and self-operated retail pharmacy operations.

We have a dedicated, experienced and stable management team

We believe that our continued success is attributable, to a large extent, to our experienced, stable and socially responsible management team, which possesses extensive operating experience and industry knowledge. Mr. Chen, our chairman and executive Director, has over 30 years of experience in the pharmaceutical industry in the PRC. Mr. Chen was the vice president of Wuhan Pharmaceutical Profession Association* (武漢醫藥行業協會) in 2003. In addition, our other senior management members have an average of 20 years of experience in the pharmaceutical industry. Our experienced management team is capable of promptly responding to a rapidly changing market, closely monitoring new developments and market trends in the pharmaceutical industry, capturing market opportunities and forming and implementing successful business strategies. We believe that the proven capability, leadership, vision, loyalty and consistent efforts of our management team and their extensive experience in the pharmaceutical industry will continue to drive our future growth.

BUSINESS

OUR BUSINESS STRATEGIES

We aim to become a leading pharmaceutical company in central and southwestern China. We intend to achieve our goal by pursuing the following principal strategies:

Further promote our “Pa Shun” brand

Our goal is to build our “Pa Shun” brand into a leading brand in the pharmaceutical industry in central and southwestern China. We intend to increase our spending in brand promotion in order to enhance our brand image and to expand our sales channels and geographical coverage. We plan to further streamline our branded retail pharmacy stores’ appearance and create a unified image and brand concept at the retail level. We intend to continue to require all of our self-operated and franchise retail pharmacy stores to display our “Pa Shun” brand image conspicuously.

We plan to introduce certain value-added services, such as the “Remote Prescription Review” system (遠程審方系統), to end consumers through our franchise retail pharmacy stores and self-operated retail pharmacy stores to promote our brand to end customers. We installed the “Remote Prescription Review” system at our franchise retail pharmacy stores and self-operated retail pharmacy stores in Chengdu in January 2014. We are the first company in Chengdu that has received government approval to adopt such a system. Upon installation of this system, one pharmacist is able to oversee 25 stores at the same time and provide prescription review and consulting services to end consumers at those stores, which we believe will enhance the operational efficiency of our retail pharmacy stores.

In addition, we plan to promote our brand through Internet media, satellite television commercials, outdoor billboard advertisements, and public health event sponsorships. We intend to install around 1,000 outdoor billboards near highways in 2015 to promote our Group, brand and products. To promote our brand in rural areas, we plan to donate approximately 10,000 medical kit boxes on which our logos are printed to charitable organizations earmarked for use by rural hospitals and medical institutions. We donated a portion of these medical kit boxes in December 2014 and plan to donate the rest in 2015. Our PRC legal counsel, Shu Jin Law Firm, is of the opinion that this donation is in full compliance with the Interim Provisions on Banning Commercial Bribery. We also plan to introduce an “Online Pharmaceutical Information Service Platform” to further promote our “Pa Shun” brand online. In accordance with relevant PRC laws and regulations, we have obtained the Online Pharmaceutical Information Service Permit.

Continue to expand our distribution network and develop our rural pharmaceutical distribution business

We intend to continue to expand the geographical reach of our distribution network by establishing relationships with additional distributors in central and southwestern China. In addition, we intend to increase our penetration in our existing markets, especially second-tier, third-tier and fourth-tier cities in southwestern China. We plan to further standardize our operating guidelines and financial management system, integrate our logistics resources and strengthen our internal control to enhance the scalability of our business and facilitate our expansion into new markets.

BUSINESS

We intend to further expand our rural pharmaceutical distribution business and establish by the end of 2015 a network encompassing over 3,000 hospitals and other medical institutions in six or more counties in the Chengdu region. We plan to continue to grow our network of franchise retail pharmacy stores. We intend to recruit franchisees whom we believe will help us expand our presence in our existing markets or penetrate into new regions. We believe the introduction of certain value-added services, such as the “Remote Prescription Review” system and our continued effort to promote our “Pa Shun” brand and broaden our product offering and enhance our product mix will help us recruit qualified franchisees. In addition, we intend to leverage our first-mover advantage and over ten years of experience in rural pharmaceutical distribution and obtain distribution rights in additional areas in Sichuan province. On the one hand, we plan to participate in tender processes for rural distribution rights organized by local PRC governments. On the other hand, we intend to increase our marketing efforts and distribute pharmaceutical products and medical devices to hospitals and other medical institutions in rural areas that have not yet implemented a tender process for rural pharmaceutical distribution, such as rural areas in Yibin City, Luzhou City, Leshan City, Neijiang City, Dujiangyan City and Longquanyi District of Sichuan province. We intend to strengthen our collaboration with hospitals and medical institutions in rural areas and enhance the quality of our rural distribution services. In order to provide timely and efficient services, we plan to upgrade our logistics facilities and introduce electronic tag, automatic sorting, and supply chain information management system. In addition, we plan to collaborate with other rural pharmaceutical distributors to integrate our supplier resources which we believe will improve our bargaining power and procurement ability.

Further broaden our product offerings and enhance our product mix

According to NFS, the demand for pharmaceutical and healthcare products is expected to continue to grow at a rapid pace in the PRC in the near future. In response to the fast-growing consumer market in the pharmaceutical industry, we intend to further broaden our product offerings and enhance our product mix to capture the expected market growth.

For our pharmaceutical distribution business, we intend to seek to enter into supply relationships with additional pharmaceutical manufacturers and further expand our supplier base. We also plan to identify high profit margin pharmaceutical and other products and include them in our pharmaceutical distribution product portfolio to further enhance the overall profitability of our pharmaceutical distribution business. In addition, we have entered into a technology cooperation agreement with Beijing Runbofude Biotechnology Development Co., Ltd. (北京潤博福得生物科技發展有限公司), pursuant to which we plan to manufacture and sell near-infrared analyzer and detection kit of HPV with the patented technology and consultancy services provided by Beijing Runbofude Biotechnology Development Co., Ltd. To further broaden our product offerings and enhance our product mix, we may also consider acquiring rights to new pharmaceutical products when there are suitable opportunities and then using our equipment and production facilities to manufacture them.

We believe that expanding our product offerings and enhancing our product mix will help our franchise retail pharmacy stores to further improve their profitability and strengthen their retail customer base. We believe that our franchise retail pharmacy stores will increase their purchases from us as a result of their increased profitability, which in turn will enhance our overall financial performance and strengthen our competitive position.

BUSINESS

Build an advanced pharmaceutical logistics center

We plan to construct an advanced pharmaceutical logistics center in Chengdu with a floor area of approximately 25,000 sq.m. We hold the state-owned land use right certificate to occupy one parcel of land in Jinniu District, Chengdu for the planned logistics center. This logistics center is expected to consist of two sections: the pharmaceutical logistics section and the supporting service section. We intend to purchase semi-automatic selection systems, which are expected to increase the total throughput, lower costs and enhance our operational efficiency. This logistics center is expected to have a maximum annual throughput of 300,000 tonnes. We also plan to install additional advanced warehousing and logistics equipment in response to our expanded product offerings in order to better serve customer needs. We intend to use approximately HK\$121.3 million of the net proceeds from the Global Offering for the construction of this logistics center, with approximately HK\$60.0 million for facility construction and leasehold improvements, and HK\$61.3 million for the acquisition and installation of equipment and software. We currently expect to complete the project proposal for the logistics center in July 2015, construct the buildings for the logistics center between September 2015 and April 2016, begin to place purchase orders for relevant equipment in October 2015, install and test equipment and connect utilities between February and June 2016, and complete the project and begin operating the logistics center by the end of July 2016. We believe that this advanced logistics center will be able to significantly increase our total storage capacity, meet our warehousing, logistics and distribution needs, and support our business expansion plans.

Continue to expand our self-operated retail pharmacy store operations

We intend to open additional self-operated retail pharmacy stores to strengthen our management control of retail sales, further increase our revenue and profitability and enhance our brand image and competitiveness at the retail level. We expect future self-operated retail pharmacy stores to be on a relatively larger scale and serve more high-end customers, compared with our existing retail pharmacy stores. These additional self-operated retail pharmacy stores may be either established by us or acquired from third parties. We currently expect to have approximately 75 to 85 self-operated retail pharmacy stores by the end of 2016. We currently have no plan to open any additional Japanese-style cosmeceutical stores or self-operated retail pharmacy stores in Chengdu. As of December 31, 2014, we had a total of 27 self-operated retail pharmacy stores in operation in Sichuan, Hebei and Hubei provinces. In addition, we had seven self-operated retail pharmacy stores that were in the process of relocating. As of the Latest Practicable Date, we had re-opened two stores following their relocation, entered into lease agreements for two stores and were in the process of selecting sites for the other three stores. We intend to acquire additional retail pharmacy stores in northwestern China and establish a self-operated retail network covering central, northern and northwestern provinces in China.

Pursue acquisitions and strategic alliances

We plan to continue to pursue growth through acquisitions and strategic alliances, in line with the PRC government policies that encourage and support market consolidation in the pharmaceutical industry. In recent years, we acquired Chunshengtang and Baixintang with a view to further expanding our retail pharmacy operations into northern and central China. As part of our plan to expand our self-operated retail network, we may consider acquiring additional retail pharmacy stores. In addition, we intend to actively pursue cooperation opportunities or strategic alliances with pharmaceutical companies to acquire advanced know-how to enhance our product portfolio. Furthermore, we may seek to acquire rights to pharmaceutical products that are complementary to our existing product portfolio through

BUSINESS

acquisitions of pharmaceutical companies with the right product portfolio. We believe that with our extensive distribution channels, we will be able to create synergy between us and such target companies and further strengthen our competitive position.

We believe that through acquisitions and strategic alliances, we have been and will continue to be able to complement our existing operations, enhance our expertise and know-how, implement our expansion strategies, broaden our product offering and expand our customer base. We plan to select acquisition targets and strategic partners based on criteria such as market share, expertise, capabilities and reputation in the markets. As of the Latest Practicable Date, we had not entered into any letters of intent or agreement for such acquisitions nor identified any definite acquisition target.

OUR BUSINESS MODEL AND BUSINESS SEGMENTS

Our business operations encompass multiple segments in the pharmaceutical industry, including pharmaceutical distribution, self-operated retail pharmacy and pharmaceutical manufacturing.

We have the following business segments:

- *Pharmaceutical distribution.* We source pharmaceutical and healthcare products and medical devices from commercial suppliers and pharmaceutical manufacturers and then sell the products on a wholesale basis primarily to (i) pharmaceutical wholesalers who then resell the products to end consumers, retail shops, hospitals or other medical institutions; (ii) franchise retail pharmacy stores operating under our “Pa Shun” brand; and (iii) hospitals and other medical institutions in rural areas in the Chengdu region in Sichuan province through a government-organized tender process.
- *Self-operated retail pharmacies.* We have a broad network of self-operated retail pharmacy stores under our “Pa Shun” brand in Sichuan, Hebei and Hubei provinces in China. As of December 31, 2014, we had a total of 27 stores in operation, including eight stores in Sichuan province, 11 stores in Hebei province and eight stores in Hubei province. One of our stores in Hubei province had been contracted out to an individual based on an agreement Baixintang and this individual had entered into prior to our acquisition of Baixintang. The profit and loss of this store had not been consolidated into our financial statements. In addition, we had seven self-operated retail pharmacy stores that were in the process of relocating. As of the Latest Practicable Date, we had re-opened two stores following their relocation, entered into lease agreements for two of the stores and were in the process of selecting sites for the other three stores.
- *Pharmaceutical manufacturing.* We manufacture and sell six pharmaceutical products, Zhenghonghua embrocation (正紅花油), Honghua embrocation (紅花油), Baihua embrocation (白花油), Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏), Antipruritic Ointment for Cicatrix (疤痕止癢軟化乳膏) and Ampicillin Capsules (氨苄西林膠囊). Our manufacturing facilities are located in Chengdu, Sichuan province. As of December 31, 2014, we had three production lines with a total annualized designed production capacity of approximately 1,010.0 million grams of embrocation, 160.0 million grams of cream and 45.0 million grams of capsules per year.

Our total turnover represents total segment revenue from our three business segments after elimination of inter-segment revenue. For the years ended December 31, 2012, 2013 and 2014, our total turnover was RMB712.1 million, RMB794.3 million and RMB847.2 million, respectively.

BUSINESS

The following table sets forth our turnover by business segment for the periods indicated:

	Year ended December 31,								
	2012			2013			2014		
	External revenue	Inter- segment revenue	Segment revenue	External revenue	Inter- segment revenue	Segment revenue	External revenue	Inter- segment revenue	Segment revenue
	<i>(RMB'000)</i>								
Segments:									
Pharmaceutical distribution	624,525	5,640	630,165	695,860	7,385	703,245	707,053	6,524	713,577
Self-operated retail pharmacies . .	7,831	—	7,831	17,626	—	17,626	29,352	—	29,352
Pharmaceutical manufacturing . . .	79,755	30,281	110,036	80,863	24,511	105,374	110,788	22,136	132,924
Total:	712,111	35,921	748,032	794,349	31,896	826,245	847,193	28,660	875,853

The following table sets forth a breakdown by store type of revenue generated from the self-operated retail pharmacies segment:

Store type	Year ended December 31		
	2012	2013	2014
	<i>(RMB'000)</i>		
Regular self-operated retail pharmacy stores . .	7,583	14,794	24,651
Japanese-style cosmeceutical stores.	248	2,832	4,701
	7,831	17,626	29,352

PHARMACEUTICAL DISTRIBUTION

We distribute pharmaceutical and healthcare products and medical devices sourced from commercial suppliers and pharmaceutical manufacturers to customers including pharmaceutical wholesalers, franchise retail pharmacy stores operating our “Pa Shun” brand, and hospitals and other medical institutions in rural areas. According to NFS, we ranked third in China in terms of the number of franchise retail pharmacy stores under our “Pa Shun” brand as of December 31, 2013, and we ranked first in Chengdu in rural pharmaceutical distribution in terms of total sales for 2013.

As of December 31, 2014, we had approximately 2,690 customers, among which approximately 700 were pharmaceutical wholesalers, 1,420 were franchise retail pharmacy stores, and 560 were hospitals and other medical institutions in rural areas. During the Track Record Period, our external revenue generated from pharmaceutical distribution was RMB624.5 million, RMB695.9 million and RMB707.1 million for the years ended December 31, 2012, 2013 and 2014, respectively, accounting for 87.7%, 87.6% and 83.5% of our total turnover for the same periods, respectively.

BUSINESS

The following table sets forth a breakdown of external revenue of our pharmaceutical distribution segment by customer type for the periods indicated:

Customer Type	For the year ended December 31,					
	2012		2013		2014	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Pharmaceutical wholesalers	419,207	67.1	480,384	69.0	446,018	63.1
Franchise retail pharmacy stores	96,499	15.5	148,152	21.3	173,189	24.5
Hospitals and other medical institutions in rural areas	108,819	17.4	67,324	9.7	87,846	12.4
Total external revenue of pharmaceutical distribution	624,525	100.0	695,860	100.0	707,053	100.0

We conduct our pharmaceutical distribution business primarily in central and southwestern China. The following table sets forth a breakdown of the external revenue from our pharmaceutical distribution segment by geographic region for the periods indicated:

Geographic Region	For the year ended December 31,					
	2012		2013		2014	
	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%	<i>(RMB'000)</i>	%
Central China	58,695	9.4	41,717	6.0	36,045	5.1
Eastern China	18,608	3.0	12,686	1.8	27,240	3.9
Northern China	29,823	4.7	33,073	4.7	19,296	2.7
Northwestern China	29,878	4.8	26,968	3.9	8,901	1.3
Northeastern China	2,451	0.4	2,640	0.4	2,056	0.2
Southwestern China	485,070	77.7	578,776	83.2	613,515	86.8
Total	624,525	100.0	695,860	100.0	707,053	100.0

BUSINESS

As of December 31, 2014, customers of our pharmaceutical distribution business included approximately 700 pharmaceutical wholesalers, 1,420 franchise retail pharmacy stores, 560 hospitals and other medical institutions. The following table sets forth a breakdown of our customers by geographic region:

Geographic Region	Pharmaceutical wholesalers⁽¹⁾	Franchise retail pharmacy stores	Hospitals and other medical institutions in rural areas
Central China	48	—	—
Eastern China	27	—	—
Northern China	22	—	—
Northwestern China	37	—	—
Northeastern China	13	—	—
Southwestern China	556	1,422	562
Total	703	1,422	562

Note:

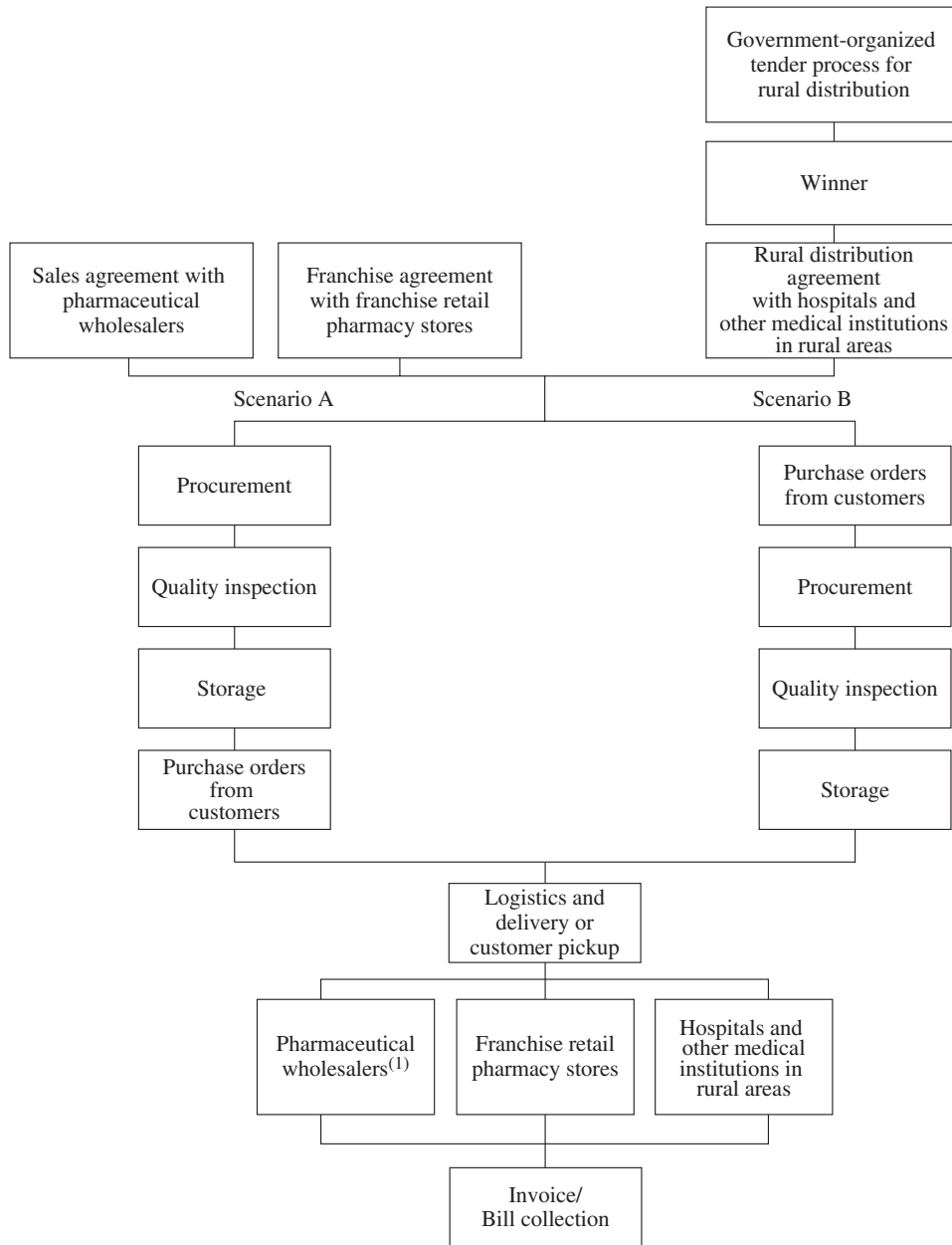
- (1) We also distribute pharmaceutical and healthcare products and medical devices to a limited number of retail shops owned by individuals.

Pharmaceutical Distribution Operating Process

Our pharmaceutical distribution operating process consists of two scenarios: (A) we purchase pharmaceutical products prior to receiving customer orders; and (B) we purchase pharmaceutical products from our suppliers only after we receive specific customer orders. With regard to pharmaceutical products that are in general use and have a steady market demand, we purchase them from suppliers on a regular basis to maintain certain inventory levels, regardless of when we receive customer purchase orders. With regard to specialized pharmaceutical products that are not commonly used, we only purchase them from suppliers upon receiving customer orders.

BUSINESS

The chart below sets forth the operating process of our pharmaceutical distribution business:



Note:

- (1) We also distribute pharmaceutical and healthcare products and medical devices to a few retail shops owned by individuals, which are included under “pharmaceutical wholesalers”.

BUSINESS

Scenario A

- Procurement: We purchase pharmaceutical products from pharmaceutical manufacturers and commercial suppliers based on our extensive operating experience to maintain a reasonable level of inventory to ensure timely distribution before we receive purchase orders from our customers.
- Quality inspection and storage: We conduct quality inspection when we receive the products from our suppliers and store the products in our warehouses according to GSP requirements.
- Purchase orders from customers: We receive purchase orders from our customers from time to time.
- Logistics and delivery or customer pickup: We conduct quality inspection again before delivery to our customers. We deliver products to our customers through our own logistics team or third-party logistics providers. We also arrange for customer pickup if preferred by customers.

Scenario B

- Purchase orders from customers: We receive purchase orders from our customers before we place purchase orders with our suppliers, especially for specialized products that are not commonly used.
- Procurement: We purchase pharmaceutical products from pharmaceutical manufacturers and commercial suppliers according to the purchase orders from our customers.
- Quality inspection and storage: We conduct quality inspection when we receive the products from our suppliers and store the products in our warehouses according to GSP requirements.
- Logistics and delivery or customer pickup: We conduct quality inspection again before delivery to our customers. We deliver products to our customers through our own logistics team or third-party logistics providers. We also arrange for customer pickup if preferred by customers.

Distribution Arrangements

Pharmaceutical wholesalers

We sell pharmaceutical and healthcare products and medical devices to pharmaceutical wholesalers located in central and southwestern China. During the Track Record Period, we generated RMB419.2 million, RMB480.4 million and RMB446.0 million in turnover from sales to pharmaceutical wholesalers for the years ended December 31, 2012, 2013 and 2014, respectively, accounting for 67.1%, 69.0% and 63.1% of the external revenue for the pharmaceutical distribution segment for the same periods. We generally do not allow sales returns except for product defect. For the years ended December 31, 2012, 2013 and 2014, sales returns by pharmaceutical wholesalers represented 1.0%, 1.3% and 0.9% of the segment revenue generated from our pharmaceutical distribution segment.

BUSINESS

We have a seller/buyer relationship with our pharmaceutical wholesaler customers. We recognize turnover when the products are delivered to their designated warehouses and accepted by them. We sell pharmaceutical and healthcare products and medical devices we source from pharmaceutical manufacturers and commercial suppliers to our pharmaceutical wholesaler customers on a wholesale basis. We believe that this business model allows us to grow our business and reach a broader end consumer base at relatively lower costs. This business model is commonly seen in the pharmaceutical industry and is the industry norm. Our wholesaler customers primarily consist of pharmaceutical trading companies. Given our seller/buyer relationship with our pharmaceutical wholesaler customers, we do not have control over them, nor do we impose any policies on them beyond the point of the completion of our sales to them. Specifically, they are not required to comply with our sales or pricing policies and we do not have policies to monitor or avoid any potential competition among them. According to NFS, it is the industry norm for pharmaceutical wholesalers to determine selling prices based on prevailing market prices or government guidance, where applicable, and pharmaceutical distributors do not have control over their wholesaler customers' pricing policies. As we distribute over 15,000 pharmaceutical products, our wholesaler customers make purchases from us based on their own needs and different wholesalers usually purchase different mixes of products from us.

We typically enter into framework sales agreements with our major pharmaceutical wholesaler customers which generally include the following principal terms:

- **Duration:** Generally one year and are renewable by mutual consent subject to negotiation of new terms prior to expiration.
- **Annual purchase amount:** Our framework sales agreements generally include an annual purchase amount and our pharmaceutical wholesaler customers confirm their actual purchase amounts and prices through purchase orders. The annual purchase amount varies among pharmaceutical wholesaler customers depending on their historical sales performance, market position, financial capability and their respective competitor's performance.
- **Payment:** Our pharmaceutical wholesaler customers are required to pay the full prices of the products they confirmed through purchase orders within 30 to 180 days of delivery to the designated location.
- **Sales return policy:** We generally do not accept sales returns except for product quality issues. In addition, our pharmaceutical wholesaler customers are required to claim sales returns, upon delivery or in writing within one month of delivery. We do not accept sales returns of defective products after one month of delivery.

We do not grant any geographic or other exclusivity to any wholesaler customer. We do not require wholesaler customers to meet any sales or expansion targets or minimum purchase amounts requirements or provide guarantee of a minimum resale value. We do not allow return of obsolete stock, nor do we provide any assistance in their disposal. It remains solely the responsibility of the wholesaler customers to dispose of any obsolete stock. We usually renew agreements with wholesaler customers and do not terminate any wholesaler customer except for strategic and resource allocation reasons or when we have reasons to believe it is not able to meet its payment obligations or it loses the requisite licenses and permits to conduct its business.

BUSINESS

The following table sets forth changes in the number of our wholesaler customers during the periods indicated:

	Year ended December 31,		
	2012	2013	2014
At the commencement of year	1,211	1,296	1,019
Additions during the year	444	270	121
Termination during the year	359	547	437
Net increase/(decrease)	85	(277)	(316)
At the end of year	1,296	1,019	703

During the Track Record Period, additions of wholesaler customers were primarily the result of the expansion of our pharmaceutical distribution business and our efforts to broaden our customer base. Terminations of wholesaler customers were mainly due to (i) our decision to terminate certain customers with low revenue contribution, primarily retail shops owned by individuals and supermarkets, in order to focus our resources on customers with relatively high revenue contribution; (ii) change of business focus of customers; and (iii) industry-wide consolidation of pharmaceutical trading companies, which reduced the total number of pharmaceutical wholesaler companies in the industry.

We do not have long-term contracts with the retail shops and supermarkets. They purchase on an as-needed basis and their contribution to our revenue and gross profit during the Track Record Period was insignificant. In deciding to terminate wholesaler customers with low revenue contribution, we primarily terminated wholesaler customers contributing annual revenue of less than RMB50,000. Among the 359, 547 and 437 terminated wholesaler customers in total in 2012, 2013 and 2014, respectively, 318, 505 and 394, which accounted for approximately 90% of the total number of terminated wholesaler customers, had revenue contribution of less than RMB50,000 in the previous accounting period. We need to devote certain personnel to manage each wholesaler customer account and arrange logistics services for each wholesaler customer, regardless of the revenue amount involved. We ceased sales to certain customers with low revenue contribution, primarily retail shops owned by individuals and supermarkets, in order to better utilize our limited human and other resources to serve high revenue contribution customers and develop new customers, enhance our operational efficiency and improve our profit margin.

During the Track Record Period, the number of terminated wholesaler customers other than those of low revenue contribution remained stable at approximately 40 in 2012, 2013 and 2014. The termination of these wholesaler customers was mainly due to (i) a change of business focus of those customers, as a result of which they found our product offerings not suitable for their needs; and (ii) industry consolidation of pharmaceutical trading companies. We currently expect that this industry consolidation will continue in the near term due to PRC government policies and that large pharmaceutical trading companies will represent increasingly higher percentages of our pharmaceutical wholesaler customers as a result. We believe the industry consolidation will not affect our revenue but will allow us to reduce selling and distribution expenses. In addition, for new geographical markets we developed, we began to sell directly to one large local pharmaceutical company which in turn sells our products to other local companies. We believe this model would allow us to incur less selling and distribution expenses than otherwise. For the year ended December 31, 2014, our logistics and sales and marketing resources were particularly strained due to the relocation of our logistics center and warehouse in April and May 2014, which also contributed to the decrease in the total number of our pharmaceutical wholesaler customers.

BUSINESS

The wholesaler customers we terminated in 2012, 2013 and 2014 contributed aggregate amounts of revenue of RMB25.1 million, RMB49.1 million and RMB66.8 million for the years ended December 31, 2011, 2012 and 2013, respectively. Among which, the amounts of revenue contributed by the terminated wholesaler customers with low revenue contribution were RMB1.7 million, RMB1.6 million and RMB1.0 million, and terminated wholesaler customers mainly due to change in business focus and industry consolidation contributed RMB23.4 million, RMB47.5 million and RMB65.8 million to our revenue for the years ended December 31, 2011, 2012 and 2013, respectively. The wholesaler customers we terminated in 2012, 2013 and 2014 contributed aggregate amounts of gross profit of RMB3.5 million, a gross profit of RMB2.3 million and a gross loss of RMB0.9 million for the years ended December 31, 2011, 2012 and 2013, respectively. Among which, the amounts of gross profit or loss contributed by the terminated wholesaler customers with low revenue contribution were a gross profit of RMB0.2 million, a gross profit of RMB0.1 million and a gross loss of RMB64,329, and terminated wholesaler customers mainly due to change in business focus and industry consolidation contributed gross profit of RMB3.2 million, RMB2.2 million and a gross loss of RMB0.8 million for the years ended December 31, 2011, 2012 and 2013, respectively.

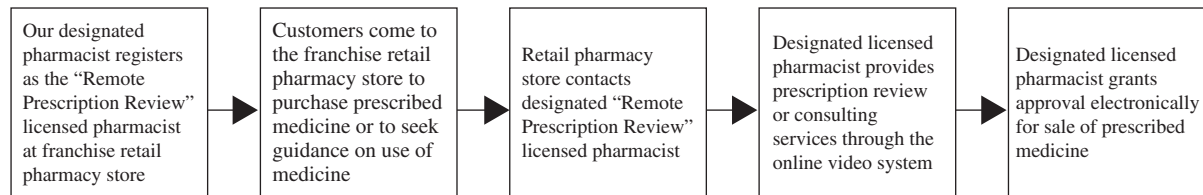
Franchise retail pharmacy stores

We distribute pharmaceutical and healthcare products to franchise retail pharmacy stores under our “Pa Shun” brand. We enter into franchise agreements with franchisees, who are all Independent Third Parties. During the Track Record Period, we generated RMB96.5 million, RMB148.2 million and RMB173.2 million in turnover from sales to our franchise retail pharmacy stores for the years ended December 31, 2012, 2013 and 2014, respectively, accounting for 15.5%, 21.3% and 24.5% of the external revenue for the pharmaceutical distribution segment for the respective periods. We generally deliver our products to the franchise retail pharmacy stores directly. We recognize revenue when the products are delivered to the franchise retail pharmacy stores and inspected and accepted by our franchisees. We believe that our franchise business model is commonly adopted by pharmaceutical manufacturers in China and such model enables us to expand our retail network to a wide geographical area by leveraging the local market knowledge of our franchisees.

We identify and select the franchisees in compliance with the requirements under relevant laws and regulations as well as our internal guidelines. We generally consider the following criteria in selecting franchisees: (i) proposed store site; (ii) scale of operation; (iii) whether the management and employees have relevant qualifications; (iv) capital resources; (v) years of experience; (vi) credit records; and (vii) whether they follow our business concepts and management policies. Our franchise retail pharmacy stores operate under our “Pa Shun” brand, and we charge our franchisees management fees for our provision of training and for our services provided in relation to marketing events and store design and layout. We typically also charge our franchisees a one-time franchise fee, but in certain instances, we may waive or discount the franchise fee for franchisees whom we believe will help us penetrate into specific regions. For the years ended December 31, 2012, 2013 and 2014, our franchise fee together amounted to RMB7.0 million, RMB10.9 million and RMB13.8 million, respectively. We conduct two regular inspections per year by our quality control personnel and various spot inspections by our sales and delivery personnel at franchise stores under our “Pa Shun” brand to monitor the sales and inventory level at each store, ensure compliance with our retail and pricing policies, and maintain a consistent brand image across retail pharmacy stores under our brand. In January 2014, we began to install the “Remote

BUSINESS

Prescription Review” system in franchise retail pharmacy stores. We designate certain of our licensed pharmacists for the “Remote Prescription Review” system. Their workflow is as follows:



Pursuant to the new GSP that became effective in June 2013, the Chengdu FDA now requires each retail pharmacy store to have two registered licensed pharmacists compared to only one as previously required. Our “Remote Prescription Review” system, which enables one licensed pharmacist to oversee up to 25 retail pharmacy stores, allows the franchisees to meet the new GSP requirement without incurring significant costs and has helped us attract franchisees and increase our revenue and gross profit generated from franchise retail pharmacy stores. Through reviewing prescriptions, we are able to assess sales and inventory levels of prescription medicine carried by the franchise stores. In addition, we launched an “Online Pharmaceutical Information Service Platform” and its linked mobile application in January 2015. This platform allows us to upload our product offerings for our franchisees to view and allows our franchisees to upload their inventory information for us to view. We believe this platform will enable us to monitor our franchisees’ sales and inventory levels more closely and to replenish our franchisees’ inventories in a more timely manner. In accordance with relevant PRC laws and regulations, we have obtained the Online Pharmaceutical Information Service Permit.

Pursuant to our franchise agreements, our franchisees bear all costs and risks of operating the franchise retail pharmacy stores and keep retained earnings after making the relevant payments to us. Our franchise agreements with our franchisees generally include the following principal terms:

- Duration and renewal: The franchise agreements are generally valid for a five-year term and are renewable by mutual consent subject to negotiation of new terms after our receipt of written renewal applications by the franchisees which shall be submitted 30 days prior to expiration of franchise agreements.
- Principal rights and obligations of franchisees: Our franchisees have obligations to (i) source from us the products they sell, including western medicine, medical devices, Chinese medicine material, Chinese medicine decoction pieces and healthcare products; (ii) maintain all necessary permits, licenses and certificates for their operations and store facilities as required under relevant PRC laws and regulations; (iii) recruit qualified professionals and employees for the operation of the franchise retail pharmacy stores; (iv) adhere to our pricing policies; (v) maintain our uniform store design and layout; and (vi) submit product procurement plans every month based on business needs and purchase products according to such plans. Our franchisees have the right to receive our training and services in relation to marketing events and store design and layout.

BUSINESS

- Our principal rights and obligations: We have the right to conduct regular and spot checks at the franchise retail pharmacy stores to monitor their store layout, sales services, and compliance with GSP requirements. We have the obligation to provide necessary training and services with respect to marketing events and store design and layout.
- Sales return: We generally do not accept sales returns from our franchisees except for products with quality issues.
- Restrictions on franchisees from operating under our “Pa Shun” brand after termination: Upon termination of the franchise agreements, the Group will terminate the franchisees’ right to use the “Pa Shun” brand. The franchisees shall (i) remove any logos and patterns relating to the “Pa Shun” brand within their operation sites; (ii) return unused uniforms, labels, and any other things with our “Pa Shun” logos on; and (iii) return the pharmaceutical operation permits and other license, permits and certificates in relation to our “Pa Shun” brand.
- Termination: We are entitled to terminate the franchise agreements and our franchisees shall pay us liquidated damages of RMB5,000 upon occurrence of the following breach of obligations by franchisees: (i) the franchisees fail to fulfill their obligations under the franchise agreements; (ii) significant quality incidents or complaints are caused by the fault of the franchisees, who fail to take rectification actions; (iii) the franchisees transfer or delegate their operations of the franchise stores to any third party without our prior written consent; (iv) the franchisees use the franchise stores to provide guarantee or mortgage without our prior written consent; (v) the franchisees disclose any of our trade secrets to any other third party which causes our loss; (vi) the franchisees damage our reputation, credit or impede the operations of our franchise stores; (vii) the franchisees fail to pay us in full on time for the products we distribute to them or source products through other channels; (viii) the franchisees fail to pay us management fees on time; or (ix) the franchisees suspend their operations for more than 20 days without our prior consent.

For the three years ended December 31, 2012, 2013 and 2014, 1,411, 1,391 and 1,416, respectively, of our franchisees failed to source from us all of the products as provided in the franchise agreements and 196, 200 and 173, respectively, of our franchisees failed to meet our requirements on facilities and equipment at the franchise stores, which constituted breaches of the franchise agreement by the relevant franchisees, according to our PRC legal advisers, Shu Jin Law Firm. The relevant franchisees shall bear liabilities for their breach of franchise agreement and such breach will not materially impact our licenses, permits and certificate according to our PRC legal advisers, Shu Jin Law Firm. The franchise agreements provide that we may elect to, but are not obligated to, terminate a franchise agreement in the case of material breaches by the franchisee. As the relevant franchisees typically only source from other suppliers products we do not offer in sufficient amounts or at all, we do not believe this technical breach of the franchise agreements has had any material negative impact on our business or constitutes a material breach by the franchisee. As such, we elect not to terminate the franchise agreements. We request breaching franchisees to remedy breaches. We have not taken any legal action to seek enforcement of the provision that requires franchisees to source from us the products specified in the franchise agreement. According to NFS, it is in line with the industry norm that franchise retail pharmacy stores do not source all of their products from their franchisors. Franchise retail pharmacy stores typically provide pharmaceutical products to a wide variety of customers with vastly different preferences. It is often not

BUSINESS

practicable to expect a franchisor to carry all varieties of medicines and as a result, the franchise retail pharmacy stores procure products from other suppliers in order to meet the specific demands of their own customers.

During the Track Record Period, we typically required our franchisees to pay us in full when the products are delivered to the franchise retail pharmacy stores and inspected and accepted by our franchisees. However, we also granted 30 day credit periods for sales of new products that are under promotion.

Retail pharmacy stores have limited geographic coverage and generally serve their immediate neighboring areas. To manage any potential cannibalization risk among franchisees as well as potential competition among franchisees and between franchisees and our existing and planned self-operated retail pharmacy stores, we pay particular attention to and conduct detailed analysis of the competitive landscape around the target location. Before opening any self-operated retail pharmacy store or approving any proposed franchise store, we review and evaluate a number of factors, including whether there is any other pharmacy store nearby and how close the proposed store is to our existing self-operated stores or franchise stores. We grade each new store proposal under a point-based system and only grant approval when we are satisfied there will not be significant cannibalization risk between the proposed store and existing stores under our brand.

As of December 31, 2014, we had 1,422 franchise retail pharmacy stores, which are all located in Sichuan province, and our network covers primarily Chengdu municipality and ten neighboring counties, as well as a number of second-tier cities in Sichuan province. The majority of the franchise retail pharmacy stores are located in commercial centers, residential areas, transport hub areas and areas near hospitals and clinics.

The following table sets forth a breakdown of our franchise retail pharmacy stores by geographic region as of the dates indicated:

Geographic region	As of December 31,		
	2012	2013	2014
Chengdu	1,093	1,112	1,104
Other areas in Sichuan province	359	285	318
Total	1,452	1,397	1,422

BUSINESS

The following table sets forth the changes in the number of the franchise retail pharmacy stores during the Track Record Period:

	For the year ended December 31,		
	2012	2013	2014
At the commencement of year	1,437	1,452	1,397
Additions of new franchise retail pharmacy stores	33	2	75
Termination of existing franchise retail pharmacy stores	18	57	50
Net increase/(decrease) in franchise retail pharmacy stores	15	(55)	25
At the end of year	1,452	1,397	1,422

The number of our franchise retail pharmacy stores increased in 2012. We believe the increase was due to our enhanced brand recognition, which helped attract franchisees. In addition, we believe the increase in our franchisees in 2012 was also a result of the growing trend for independent retail pharmacy stores to join a franchise chain in order to obtain GSP certification at relatively lower costs, reduce operating expenses and benefit from the franchise chain's brand recognition. The number of our franchisees decreased in 2013 primarily because of the terminations of existing franchise retail pharmacy stores due to relocations caused by urban construction planning by the relevant government authorities. The number of our franchise retail pharmacy stores increased in 2014 primarily as a result of the PRC government's policies which resulted in a growing number of independent retail pharmacy stores joining franchise chain stores in order to obtain GSP certification at relatively lower costs.

Rural distribution

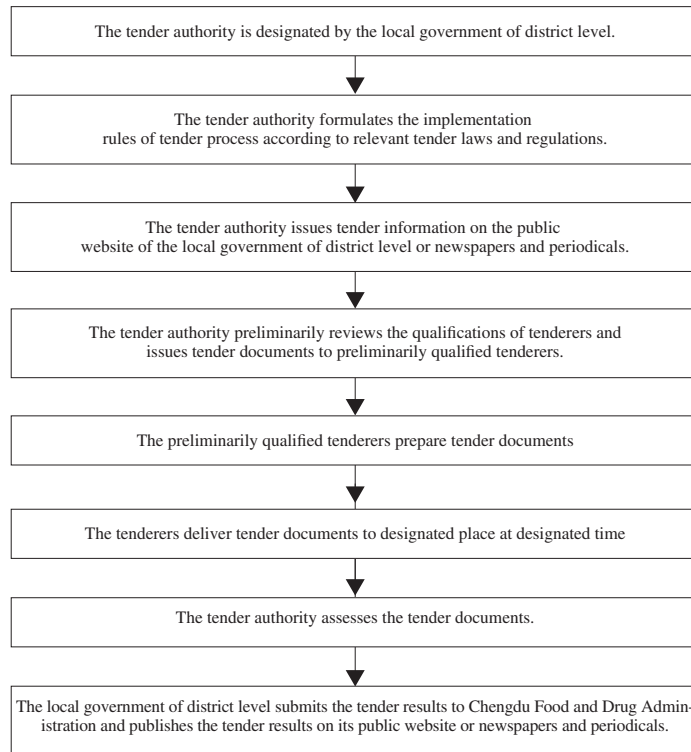
We distribute pharmaceutical products and medical devices to hospitals and other medical institutions in Shuangliu County, Wenjiang District, Jintang County, Chongzhou City and Pi County in the Chengdu region in Sichuan province. We enter into distribution agreements with our customers using the template provided by the local government authority. We distribute products based on purchase orders provided to us by the hospitals and other medical institutions in rural areas. The prices for these products are subject to the price ceilings determined by Health and Family Planning Commission of Sichuan Province (四川省衛生和計劃生育委員會).

We are required to go through the government-organized tender process before we conduct rural distribution. The local competent authority responsible for the tender process publishes tender information on the public website of the local government of district level or newspapers and periodicals. Then the tenderers go through a preliminary review, and qualified tenderers are notified to prepare tender documents to bid for the right to distribute pharmaceutical products and medical devices to designated rural areas. The local tender authority reviews the tender documents. Generally, successful tenderers should meet the following criteria: the tenderers (i) are GSP-certified; and (ii) are qualified as essential drug distributor in Sichuan province, which is subject to review by Sichuan Essential Drug Collective Tender Service Center (四川省基本藥物集中採購服務中心) every year under a point-based system. Under such system, a number of factors are reviewed, such as operation capabilities, timely distribution

BUSINESS

and compliance with relevant laws and regulations. The list of essential drug distributors in Sichuan province is updated every year by Sichuan Drug Collective Tender Service Center (四川省基本藥物集中採購服務中心) according to its review results; (iii) have good credit records; (iv) have product portfolios that meet the medical needs of basic medical institutions; and (v) have operation capabilities to provide distribution services to all of the local basic medical institutions within the area of district level. In addition, the tender authorities take into account other factors in assessing tenders, which vary among different areas, such as: the tenderers (i) have certain amount of registered capital; (ii) have relevant experience; and (iii) have been publicly recognized by Chengdu Food and Drug Administration (成都市食品藥品監督管理局). The local government of district level submits the tender results to Chengdu Food and Drug Administration and publishes the tender results on its public website or newspapers and periodicals.

The flowchart below illustrates the government-organized tender process:



BUSINESS

We ranked first in rural pharmaceutical distribution in the Chengdu region, Sichuan province in terms of total sales for 2013, according to NFS. We distribute pharmaceutical products and medical devices to hospitals and other medical institutions in Shuangliu County, Wenjiang District, Jintang County, Chongzhou City and Pi County in the Chengdu region, Sichuan province. We do not have exclusive distribution rights in any area. We were publicly recognized for our outstanding performance and high customer satisfaction, together with other two rural distributors, each year from 2009 to 2013, by the government authorities as set forth in the table below, respectively.

Year	Issuing authority
2009	Office of Chengdu Rural Pharmaceutical Supervision and Supply Network Establishing Joint Meeting (成都市農村藥品監督供應網絡建設工作聯席會議辦公室)
2010	Chengdu Food and Drug Administration (成都市食品藥品監督管理局)
2011	Office of Chengdu Rural Pharmaceutical Supervision and Supply Network Establishing Joint Meeting (成都市農村藥品監督供應網絡建設工作聯席會議辦公室)
2012	Chengdu Food and Drug Administration (成都市食品藥品監督管理局)
2013	Office of Shuangliu County Rural Pharmaceutical Supervision and Supply Network Establishing Leader Group (雙流縣農村藥品監督供應網絡建設工作領導小組辦公室)

In order to regulate the tender process for rural distribution in Chengdu, the Interim Measures of Chengdu City for Rural Drug Supervision and Supply Networks Management (成都市農村藥品監督供應網絡管理暫行辦法), or “Circular 113”, was promulgated in 2005 by the Chengdu municipal government, and the Trial Measures of Chengdu City for Basic Drugs Purchase and Distribution by Basic Healthcare Institutions (成都市基層醫療衛生機構常用藥品採購和配送管理辦法(試行)), or “Circular 181”, was promulgated in 2011 jointly by the Food and Drug Administration, Bureau of Hygiene, Commission of Development and Reform and Bureau of Finance of Chengdu. Under Circular 113, each district or county in Chengdu may only select one pharmaceutical company for rural pharmaceutical distribution, typically for a term of four years. Under Circular 181, up to three pharmaceutical companies may be selected for each district or county in Chengdu, typically for a term of two years. Of the districts and counties in Chengdu that have established the tender process under Circular 113, some have not implemented Circular 181 after its promulgation primarily because the issuing authorities of Circular 181 are at a lower administrative level than the issuing authority of Circular 113.

During the Track Record Period, we typically required our rural pharmaceutical distribution customers to pay us in full within 90 days of receipt of the pharmaceutical products or medical devices.

BUSINESS

During the Track Record Period, the number of our rural distribution customers was 1,030, 647 and 562 for the years ended December 31, 2012, 2013 and 2014, respectively. The decrease in the number of the rural distribution customers from 2012 to 2013 was primarily due to the PRC government's policy changes promulgated in November 2011, which began to be implemented in 2012 and were implemented on a wider scale in 2013, to allow up to three distributors in cities or districts where we used to enjoy distribution rights. The decrease in the number of the rural distribution customers in 2014 was primarily due to the continued effect of the PRC government's policy changes described above which allowed more distributors to conduct rural distribution in areas where we used to be the sole distributor. We have been working to explore more regions for our rural distribution business.

Sales and Marketing

We invite relevant personnel from our pharmaceutical wholesaler customers and franchise retail pharmacy stores as well as doctors at hospitals to participate in meetings, where some of the pharmaceutical products we distribute are showcased. For the products we manufacture, we advertised such products primarily through television commercials.

We collaborate with pharmaceutical manufacturers to conduct sales and marketing activities at our branded franchise retail pharmacy stores. We provide certain value-added services to end consumers at our franchise retail pharmacy stores through our "Remote Prescription Review" system (遠程審方系統), by which our pharmacists are able to provide prescription review and consulting services to end consumers. We believe by providing the value-added services to our end consumers we will be able to further enhance our brand image and expand our sales channels.

To promote our brand in rural areas, we plan to donate approximately 10,000 medical kit boxes on which our logos are printed to charitable organizations earmarked for use by rural hospitals and medical institutions. We donated a portion of these medical kit boxes in December 2014 and plan to donate the rest in 2015. Our PRC legal counsel, Shu Jin Law Firm, is of the opinion that this planned donation is in full compliance with the Interim Provisions on Banning Commercial Bribery.

As of the Latest Practicable Date, we had approximately 92 sales and marketing representatives for our pharmaceutical distribution operations, who were located at our corporate headquarters in Chengdu and 24 provinces and cities.

BUSINESS

Product Portfolio

For the year ended December 31, 2014, we distributed approximately 13,154 pharmaceutical and healthcare products, medical devices and cosmetic products. No product contributed over 5% of our turnover for any of the periods during the Track Record Period. The table below sets forth the major categories of our products, the number of products and the representative products in each category:

Product Category	Number of Products			Representative Products
	For the year ended December 31,			
	2012	2013	2014	
Western medicine	4,350	3,744	3,506	Amoxicillin; Cefradine; Ceftriaxone sodium
Chinese patent medicine . . .	4,494	3,953	3,834	Throat tablet; Compound liquorice tablet; Digestion improving tablet
Chinese medicine material and decoction pieces	2,156	1,630	1,463	Pseudo ginseng; American ginseng; Donkey– hide gelatin; Codonopsis pilosula; Astragalus membranaceus; Angelica sinensis
Medical devices	1,155	913	683	Cotton swab; Gauze; Condom; Sphygmomanometer
Healthcare products	442	450	406	“By-health” series; “Naobaijin”; “Shengmingyihao”
Cosmetic products	22	4,114	2,718	“Momcen” series; “Tongrentang” series; “Doctor Radiation” series
Others	242	999	544	Ethanol for disinfection; Iodophor; Ketoconazole; Essential balm

During the Track Record Period, our sales were generally relatively high in the last quarter and relatively low in the first quarter of each year. Sales tend to be high in the last quarter primarily due to the following: (i) our annual contracts with customers usually expire at the end of each year and they usually purchase additional products in the last quarter for stocking purposes as they expect prices to increase in the following year; and (ii) demands for products we distribute tend to be higher in the winter season as there are higher incidences of certain diseases when the weather is cold. Sales tend to be relatively low in the first quarter primarily as a result of reduced business activities around the Chinese New Year holidays and the advance purchases by our customers in the last quarter of the previous year.

BUSINESS

Price Ranges

The table below sets forth the major products in each product category, their price ranges and reasons for the price fluctuations, during the Track Record Period.

<u>Product Category</u>	<u>Name of Product</u>	<u>Price Ranges⁽¹⁾</u>	<u>Reasons for Price Fluctuations</u>
Western medicine	Cefalexin and Trimethoprim Capsules	RMB9.30 to RMB10.80	Change in procurement costs
Western medicine	Compound paracetamol and amantadine hydrochloride tablets	RMB8.40 to RMB12.20	Change in procurement costs
Chinese patent medicine	Lipid lowering tablets	RMB6.10	N/A
Chinese patent medicine	Nerves-soothing and brain-boosting syrup	RMB17.00 to RMB18.40	Promotional discounts
Healthcare product	Zinc gluconate oral liquid	RMB14.10 to RMB19.60	Change in procurement costs
Healthcare product	Xingaizhonggai high calcium tablets	RMB18.50 to RMB20.00	Change in procurement costs
Chinese medicine decoction pieces	Donkey-hide gelatin	RMB276.00 to RMB340.00	Change in procurement costs
Chinese medicine decoction pieces	Pseudo ginseng	RMB600.00 to RMB780.00 ⁽²⁾	Change in procurement costs
Medical devices	Disposable foley catheters	RMB4.00 to RMB4.60	Change in procurement costs
Medical devices	“Mamiaixiaoer” fever cooling patch	RMB5.00 to RMB5.85	Change in procurement costs
Cosmetic products	“Huayinshuiyang” moisturizing mask	RMB109.00 to RMB128.00	Promotional discounts
Cosmetic products	“Kao Miaoershu” baby diaper	RMB154.00	N/A
Others	“Lingfang” snake oil skincare cream	RMB12.40 to RMB12.60	Promotional discounts
Others	“Sunsimiao” whitening cleanser	RMB41.00 to RMB58.00	Promotional discounts

Note:

(1) Unless otherwise noted, the price ranges are calculated based on the smallest individual package, which remained unchanged during the Track Record Period.

(2) The price range is calculated on a per kilogram basis.

BUSINESS

Top Five Customers and Suppliers of the Pharmaceutical Distribution Segment

For the years ended December 31, 2012, 2013 and 2014, sales to our five largest customers for the pharmaceutical distribution segment together accounted for 14.2%, 24.4% and 32.3%, respectively, of the total segment revenue of the pharmaceutical distribution segment and our purchases from our five largest suppliers for the pharmaceutical distribution segment together accounted for 30.2%, 33.9% and 41.7%, respectively, of the total cost of sales of the pharmaceutical distribution segment.

SELF-OPERATED RETAIL PHARMACIES

We had 27 self-operated retail pharmacy stores under our “Pa Shun” brand in operation in Sichuan, Hebei and Hubei provinces as of December 31, 2014. One of our stores in Hubei province had been contracted out to an individual based on an agreement Baixintang and this individual had entered into prior to our acquisition of Baixintang. The profit and loss of this store had not been consolidated into our financial statements. In addition, we had seven self-operated retail pharmacy stores that were in the process of relocating. As of the Latest Practicable Date, we had re-opened two stores following their relocation, entered into lease agreements for two stores and were in the process of selecting sites for the other three stores. We believe operating our own retail pharmacy stores enables us to exercise effective control over our retail pharmacy operations and to further enhance our profitability. During the Track Record Period, we generated RMB7.8 million, RMB17.6 million and RMB29.4 million in turnover from our self-operated retail pharmacy stores for the years ended December 31, 2012, 2013 and 2014, respectively.

Retail Network

The following table sets forth a breakdown of our self-operated retail pharmacy stores by geographic region as of the dates indicated:

Geographic region	As of December 31,		
	2012	2013	2014 ⁽²⁾
Sichuan province	7	10	8
Hebei province	8	14 ⁽¹⁾	11
Hubei province ⁽³⁾	—	10	8
Total	15	34	27

Note:

- (1) As of December 31, 2013, our self-operated retail pharmacy stores in Hebei province included Chunshengtang Zhengding Sixth Store, which is not engaged in the business of pharmaceutical products but engaged in the sales of healthcare products.
- (2) As of December 31, 2014, we also had seven self-operated retail pharmacy stores that were in the process of relocating.
- (3) As of December 31, 2013 and 2014, our self-operated retail pharmacy stores in Hubei province included one store that had been contracted out to an individual based on an agreement Baixintang and this individual had entered into prior to our acquisition of Baixintang. The profit and loss and assets and liabilities of this store had not been consolidated into our financial statements.

BUSINESS

As of December 31, 2014, we had 27 self-operated retail pharmacy stores in operation, which were located in Sichuan, Hebei and Hubei provinces. The following table sets forth the changes in the number of our self-operated retail pharmacy stores during the Track Record Period:

	For the year ended December 31,		
	2012	2013	2014
At the commencement of year	3	15	34
Additions of new self-operated retail pharmacy stores	12	19	—
Termination of existing self-operated retail pharmacy stores	—	—	7
Net increase/(decrease) in self-operated retail pharmacy stores	12	19	(7) ⁽¹⁾
At the end of year	15	34	27

Note:

(1) The seven stores were in the process of relocating as of December 31, 2014.

The continued growth and success of our self-operated retail pharmacy operations is dependent upon our ability to carry out our expansion plan, which includes the addition of new pharmacy chain stores. Our expansion plan focuses on adding stores within existing markets and entering into new markets. We acquired Chunshengtang in November 2011 and Baixintang in December 2013 as our first major steps to expand our self-operated retail pharmacy network. During the year ended December 31, 2014, we temporarily closed two Japanese-style cosmeceutical stores, two self-operated retail pharmacy stores in Hubei and three in Hebei until we find more suitable locations for them to reopen. As of the Latest Practicable Date, we had re-opened two stores following their relocation, entered into lease agreements for two stores and are in the process of selecting sites for the other three stores.

We carefully select our store sites to maximize consumer traffic, store visibility and convenience for our customers. Substantially all of these self-operated retail pharmacy stores are located in well-developed urban residential communities and prime retail locations in Sichuan, Hebei and Hubei provinces. We believe that increasing our store base in, and relocating stores to, desirable geographical markets is an essential strategy for competing effectively in the current environment and maintaining our leading position in the retail pharmacy market.

Acquisition of Chunshengtang

Immediately prior to our subscription of 80% registered capital of Chunshengtang, Chunshengtang was held as to 90% by Mr. Su Si (蘇肆) and 10% by an Independent Third Party. In November 2011, we acquired an 80% equity interest in Chunshengtang from its shareholders. For details, please see “History and Corporate Structure — Our History — Chunshengtang”.

BUSINESS

Since its establishment, Chunshengtang has been engaged in the business of retail pharmacy chain store operations. Chunshengtang operated 11 retail pharmacy stores as of December 31, 2014, all located in Shijiazhuang, Hebei province. We acquired Chunshengtang in order to expand our self-operated retail pharmacy store network and gain market share in pharmaceutical retail in northern China.

Acquisition of Baixintang

Immediately prior to our acquisition of the entire registered capital Baixintang, Baixintang was held by Independent Third Parties. In November 2013, we acquired a 100% equity interest in Baixintang from its shareholders. For details, please see “History and Corporate Structure — Our History — Baixintang”.

Since its establishment, Baixintang has been engaged in retail pharmacy operations. As of December 31, 2014, Baixintang had eight retail pharmacy stores. One of the stores under Baixintang had been contracted out to an individual based on an agreement Baixintang and this individual had entered into prior to our acquisition of Baixintang. According to the agreement, this individual contractor (i) is required to purchase all products for the store from us other than in exceptional circumstances; (ii) may not engage in any activity that may damage our reputation and corporate image; and (iii) bears all responsibility for any violation of relevant laws, rules and regulations in the store’s business operations. This individual contractor pays us a fixed annual contract fee for the right to operate the store and fees for procuring products from us, which are calculated as a percent of the total procurement amount. This individual contractor is responsible for all expenses, costs and liabilities incurred during the contract period. The profit and loss of this store have not been consolidated into our financial statements. In addition, there were two retail pharmacy stores under Baixintang that were in the process of relocating as of December 31, 2014. We acquired Baixintang primarily to expand our self-operated retail pharmacy store network in central China.

Japanese-Style Cosmeceutical Stores

We entered into the Business Cooperation Agreement with V-drug on January 17, 2012, pursuant to which we will open and operate Japanese-style cosmeceutical stores while V-drug will provide consultancy services, product purchase channel and product mix to us. V-drug’s parent company, Valor Co., Ltd., is listed on the Tokyo Stock Exchange (stock code: 9956) and directly and indirectly holds 100% equity interest of Chubu Yakuhin Co., Ltd, which has over 25 years of experience in the pharmaceutical retail industry in Japan. We believe that through cooperation with V-drug’s parent company, Chubu Yakuhin Co., Ltd, to establish and operate the Japanese-style cosmeceutical stores, we would be able to learn and implement the advanced retail management system adopted by Chubu Yakuhin Co., Ltd and Valor Co., Ltd. first in those cosmeceutical stores and gradually expand to our other self-operated retail pharmacy stores. We believe that this cooperation would enable us to benefit from Chubu Yakuhin Co., Ltd, and its parent group’s experience and expertise in pharmaceutical retail operations.

As of the Latest Practicable Date, we had three Japanese-style cosmeceutical stores in Chengdu, Sichuan province. In addition, there were two Japanese-style cosmeceutical stores that were in the process of relocating. We sell three major types of products in our Japanese-style cosmeceutical stores, including pharmaceutical products, cosmetic products and daily necessities. We source the cosmetic products and daily necessities from V-drug Chengdu, many of which are Japanese developed and branded. In addition, our Japanese-style cosmeceutical stores have Japanese-style store layout and design and customer services.

BUSINESS

For the year ended December 31, 2014, we generated turnover of RMB4.7 million from the Japanese-style cosmeceutical stores, accounting for 16.0% of the segment revenue of self-operated retail pharmacy during the same period.

The following table sets forth certain key differences between the Japanese-style cosmeceutical stores and our regular self-operated retail pharmacy stores:

	Japanese-style cosmeceutical stores	Regular self-operated retail pharmacy stores
Product portfolio	<ul style="list-style-type: none"> • Pharmaceutical products • Cosmetic products and daily necessities sourced from V-drug Chengdu 	<ul style="list-style-type: none"> • Pharmaceutical and healthcare products and medical devices
Average store area	approximately 400m ²	approximately 160m ²
Average number of sales staff employed per store	10	4
Average revenue per store for 2014 (RMB'000)	1,262	867

Self-operated retail pharmacy stores to be opened

We currently plan to open a total of 75 to 85 self-operated retail pharmacy stores in Sichuan, Hebei and Hubei provinces by the end of 2016. We currently have no plan to open any additional Japanese-style cosmeceutical stores or self-operated retail pharmacy stores in Chengdu. We expect the average capital expenditure for each of these retail pharmacy stores to be around RMB1.2 million. We currently expect to incur capital expenditure of RMB43.5 million for 2015 and RMB68.0 million for 2016 for the planned acquisition or establishment of self-operated retail pharmacy stores. As of the Latest Practicable Date, we had not yet incurred any capital expenditure for these retail pharmacy stores. Going forward, we intend to use the net proceeds from the Global Offering and cash generated from our operations to fund these planned capital expenditures.

We expect the payback period for the initial setup costs to be: (i) approximately 60 months for each of our self-operated retail pharmacy stores that are established by us; and (ii) approximately 32 months for each of our self-operated retail pharmacy stores that are acquired from third parties.

We expect the profit and loss breakeven period to be: (i) approximately 375 days for each of our self-operated retail pharmacy stores that are established by us; and (ii) approximately 250 days for each of our self-operated retail pharmacy stores that are acquired from third parties. Payback period is the period of time required to recover the initial setup costs of each self-operated retail pharmacy store by its net profit, assuming turnover will increase in line with overall business growth, no material changes in market demand and no material increases in the costs of purchased products or labor costs. Profit and loss breakeven period is the period of time required for a new self-operated retail pharmacy store's cumulative gross profit to be equal to its cumulative operating expenses, assuming that the daily sales amount, turnover growth rate, operating margin and monthly overhead costs for the new store are the same as those for an average existing self-operated retail pharmacy store in Hebei and Hubei provinces. We have

BUSINESS

not included our regular self-operated retail pharmacy stores in Chengdu and Japanese-style cosmeceutical stores in calculating the estimated profit and loss breakeven period because (i) all of our Japanese-style cosmeceutical stores are located in Sichuan, and they are not representative of our regular self-operated retail pharmacy stores as they require higher operating costs due to their set-up and have lower gross margin due to their specific product portfolio; and (ii) our regular self-operated retail pharmacy stores located in Chengdu incurred operating losses during the Track Record Period primarily because (A) those stores are located in premium commercial areas with relatively high rental costs; and (B) certain government road construction projects restricted access to some of those stores since the beginning of 2013 and caused pedestrian traffic around them to decline. As we currently have no plan to open any additional Japanese-style cosmeceutical stores or any additional self-operated retail pharmacy stores in Chengdu, we do not believe they should be taken into account in the calculation of the profit and loss breakeven period for self-operated retail pharmacy stores to be opened.

Our Japanese-style cosmeceutical stores and our regular self-operated retail pharmacy stores in Chengdu incurred operating losses throughout the Track Record Period and, as a result, we are not able to calculate profit and loss breakeven period based on their historical performance. According to our agreement with V-Drug, we plan to close down any Japanese-style cosmeceutical store that has not reached profit and loss breakeven 30 months after its commencement of operations.

For the year ended December 31, 2014, our regular self-operated retail pharmacy stores in Chengdu incurred an average monthly operating loss of approximately RMB36,000 per store. Going forward, we intend to adopt certain measures to reduce our operating expenses, primarily including reducing store areas and hence rental costs. In addition, we plan to review the operating performance of our self-operated retail pharmacy stores in Chengdu on a semi-annual basis and close down any store that incurs an average monthly operating loss higher than RMB25,000 during a six-month period. For the stores that have average monthly operating losses of less than RMB25,000 in a six-month period, we plan to review their performance again after another six months and close down any stores that continue to incur operating losses after the second six-month period.

According to NFS, total retail sales by pharmacies in Sichuan, Hebei and Hubei provinces have been growing at rates higher than the national average since 2011. Further, NFS projects that retail sales by pharmaceutical stores in Sichuan, Hebei and Hubei provinces are expected to grow at CAGRs of 20.8%, 20.8% and 20.9%, respectively, between 2013 and 2016. According to NFS, the numbers of persons each retail pharmacy store serves in Hubei and Hebei provinces are both higher than the national average, which we believe indicates there will be market demand for additional retail pharmacy stores. In Sichuan province, we primarily intend to establish self-operated retail pharmacy stores by acquiring existing stores. We believe that by leveraging our pharmaceutical distribution and logistics capabilities as well as our broad network of suppliers and customers in Sichuan province, we could expand sales of the acquired stores. Based on the above, our Directors believe that there is adequate market demand to support our current plan to open additional self-operated retail pharmacy stores. We currently do not have any plans to close any franchise retail pharmacy store in order to avoid the cannibalization risk between existing franchise stores and the planned self-operated retail pharmacy stores. To manage potential cannibalization risk, we will not establish or acquire a new self-operated retail pharmacy store at a certain site if (i) there already exist two or more retail pharmacies within a 1000-meter radius; or (ii) based on our survey the population to be served will be below 5,000.

BUSINESS

We have a well-developed logistics and warehousing system. In Sichuan province, our self-operated retail stores submit their product orders to our headquarters on a daily basis, and we deliver products to them from our current logistics center following our route plan. In anticipation of the expansion of our self-operated retail pharmacy stores, we expect to complete the construction of a new logistics center in Chengdu by April 2016 and have it in full operation by the end of July 2016. We plan to install advanced warehousing and logistics. In Hebei province, we use our subsidiary Chunshengtang's logistics facilities for warehousing and delivery of products to self-operated retail stores. In Hubei province, we currently use a third-party logistics service provider for delivery of products. In the long run, we may consider establishing a logistics center in Hubei province if we believe it would better serve our business needs.

Prior to opening a self-operated retail pharmacy store, we will conduct detailed analysis of its location and surrounding commercial environment and demographics to determine the expected sales level and related inventory level. We plan to monitor sales closely and adjust inventory levels accordingly from time to time.

We plan to fund the development of self-operated retail stores in our use of cash generated from operations and net proceeds from the Global Offering to ensure the smooth implementation of our plan to open additional self-operated retail stores. We plan to assign finance staff to monitor and manage the working capital of these self-operated retail stores according to our working capital management internal control policies.

To ensure compliance with the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法), we plan to assign relevant personnel from our quality control department and legal department to monitor the daily operations of the new self-operated retail stores, provide legal and compliance training with regard to social insurance and quality control, and help resolve any incidents that may arise from time to time.

Store Operations

We have obtained all necessary licenses, permits and certificates in accordance with relevant PRC laws and regulation in all material respects for all of our self-operated retail pharmacy stores, except Baixintang Mahu Store and Chunshengtang Zhengding Sixth Store. Baixintang Mahu Store has not obtained the GSP certificate because Wuhan Food and Drug Administration has suspended acceptance of new applications for GSP certificate in Wuhan region due to lack of administrative measures and implementing rules of new GSP requirements. According to the Administrative Rules on Certification of GSP (藥品經營質量管理規範認證管理辦法) and the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法), a pharmaceutical company will receive a warning and be required to rectify its non-compliance for failing to obtain the GSP certificate within the stipulated time period. If rectification is not completed in time, the relevant government authority may order the non-compliant pharmaceutical company to cease production and pay a fine in an amount ranging from RMB5,000 to RMB20,000. In particularly serious cases, the non-compliant pharmaceutical company's pharmaceutical operation permit may be revoked. Wuhan Food and Drug Administration, or Wuhan FDA, issued an official confirmation to us in July 2014 stating that it will not impose any penalty on us for Baixintang Mahu Store's failure to obtain the GSP certificate due to the following: (i) Wuhan FDA is aware that Baixintang Mahu Store has obtained the pharmaceutical operation permit but not the GSP certificate; (ii) Baixintang Mahu Store has ceased operations since May 2014, had a relatively short operating history; and (iii) Wuhan FDA stopped taking applications for issuance and renewal of GSP certificates before the Implementation Measures for the new Administrative Rules on Certification of GSP are promulgated.

BUSINESS

Baixintang Mahu Store is required to obtain a new GSP certificate prior to December 31, 2015 pursuant to the Administrative Rules on Certification of GSP and the Trial Implementation Measures of Hubei Province for the Administrative Rules on Certification of GSP (湖北省藥品經營質量管理規範認證管理實施辦法(試行)). According to our PRC legal adviser, Shu Jin Law Firm, Wuhan FDA is the competent government authority with regard to Baixintang Mahu Store's GSP certificate, and, based on the above confirmation from the Wuhan FDA, we should not be penalized for Baixintang Mahu Store's failure to obtain GSP certificate. Baixintang Mahu Store needs to obtain the GSP certificate prior to December 31, 2015. We will reopen Baixintang Mahu Store only after it has obtained the GSP certificate. Chunshengtang Zhengding Sixth store has not obtained the pharmaceutical operation permit and GSP certificate because currently it is not engaged in the supply of pharmaceutical products. As of the Latest Practicable Date, 17 of our self-operated retail pharmacy stores were engaged in health food business in the PRC, 10 in healthcare products business and 20 in food business, all of which have obtained licenses, permits and certificates as required under applicable PRC laws and regulations in all material respects. We operate our self-operated retail pharmacy stores in accordance with relevant PRC laws and regulations.

For our self-operated retail pharmacy stores in Sichuan province, we source pharmaceutical and healthcare products from pharmaceutical manufacturers and commercial suppliers through Chengdu Kexun and cosmetic products and daily necessities from V-drug Chengdu. For our self-operated retail pharmacy stores in Hebei and Hubei provinces, we primarily source pharmaceutical and healthcare products from pharmaceutical manufacturers and commercial suppliers directly or through Chengdu Kexun.

We require all of retail pharmacy stores under our "Pa Shun" brand, including franchise retail pharmacy stores and our self-operated chain stores, to meet our criteria for store layout and design specifications in order to promote our brand name and maintain corporate image. Our self-operated retail pharmacy stores in Chengdu, Sichuan Province are equipped with "Remote Prescription Review" system by which licensed pharmacists are able to carry out their duties remotely at the headquarters: providing prescription review and pharmaceutical consulting services to end consumers. Each of our self-operated retail pharmacy stores in Shijiazhuang, Hebei Province is staffed with an in-store licensed pharmacist. Each of our self-operated retail pharmacy stores in Wuhan, Hubei Province is staffed with an in-store pharmacist. As the implementation rules relating to the new GSP have not been promulgated, local food and drug administration authorities have adopted local requirements in transition period. We have complied with the relevant requirements promulgated by the local authorities. We plan to recruit licensed pharmacists for our self-operated retail pharmacy stores in Wuhan, Hubei Province, in compliance with the new GSP requirements.

We have installed information systems in our self-operated retail pharmacy stores and provide real time monitoring of supply, sales and inventory of our retail network. Although we offer our retail customers the option to pay by cash or debit or credit cards, or by medical insurance cards, a substantial portion of retail sales are made in cash. As such, we have adopted strict cash control procedures in all of our self-operated retail pharmacy stores. In particular, the details of each sale are recorded in the information system, and substantially all of the cash generated from our stores is deposited in the bank on a daily basis and a small portion is deposited in a controlled, on-premises safe box in each of our retail pharmacy chain stores. Our finance department undertakes a daily reconciliation of sales data collected from cash deposit receipts that is subsequently confirmed by our banks. For franchise retail pharmacy stores, we regularly conduct on-site inspections to and monitor the sales and inventory of the franchise retail pharmacy stores.

BUSINESS

We recognize turnover from the sale of goods to our retail customers in our self-operated retail pharmacy stores when the products are sold to the customers. We recognize turnover from the sale of goods to our franchise retail pharmacy stores when our products are delivered to the franchise retail pharmacy stores and inspected and accepted by our franchisees. We recognize turnover from the fees paid by our franchise retail pharmacy stores when all material services relating to the relevant franchise agreement have been substantially performed.

We obtain reimbursements every month from the relevant government social security bureaus for sales made to eligible participants in the national medical insurance program, depending on the province in which a store is located. Such reimbursements are the primary account receivables for our self-operated retail pharmacy stores, as we generally do not grant credit to our retail customers. As of the Latest Practicable Date, 76.5% of our self-operated retail pharmacy stores were designated stores under the PRC national medical insurance program.

We installed the “Remote Prescription Review” system at our franchise retail pharmacy stores and self-operated retail pharmacy stores in Chengdu in January 2014. We are the first in Chengdu that is approved by the government authority to adopt such a system. Upon the installation of this system, one pharmacist is able to oversee 25 stores at the same time and provides prescription review and pharmaceutical consulting services to end consumers at those stores. We believe this will enhance the operational efficiency of our retail chain stores.

Product and Services

We provide our customers with convenient and professional pharmacy services at our self-operated retail pharmacy stores. We offer a wide variety of pharmaceutical and healthcare products, cosmetic products and daily necessities.

BUSINESS

The table below sets forth the major categories of our products, the number of products and the representative products in each category:

Product Category	Number of Products			Representative Products
	For the year ended December 31,			
	2012	2013	2014	
Western medicine	3,979	3,623	3,790	Antibiotic series; Heart and cerebral vessels series
Chinese patent medicine	4,174	3,827	3,530	Throat tablet; Compound liquorice tablet; Digestion improving tablet
Chinese medicine material and decoction pieces	468	1,263	1,673	Pseudo ginseng; American ginseng; Donkey-hide gelatin; Codonopsis pilosula; Astragalus membranaceus; Angelica sinensis
Medical devices	420	621	206	Thermometer; Cotton swab; Gauze; Sphygmomanometer; “OMEOK” series
Family planning products	100	169	211	Condom; Emergency contraception; Pregnancy test paper
Healthcare products	725	354	2,374	“By-health” series; “Alivegreen” series; “SI-KI Shijian” series
Non-pharmaceutical products including cosmetic products and daily necessities	728	1,282	2,243	“Momcen” series; “Tongrentang” series; “Doctor Radiation” series

During the Track Record Period, our sales of the self-operated retail pharmacies segment were typically higher in the second half of each year, particularly during the fourth quarter, primarily because demands for the products we carry tend to be higher in the winter season as there are higher incidences of certain diseases when the weather is cold. Sales tend to be relatively low in the first quarter primarily as a result of reduced business activities around the Chinese New Year holidays.

BUSINESS

Price Ranges

The table below sets forth the major products in each product category, their price ranges and reasons for the price fluctuations during the Track Record Period.

<u>Product Category</u>	<u>Name of Product</u>	<u>Price Ranges⁽¹⁾</u>	<u>Reasons for Price Fluctuations</u>
Western medicine	Calcium zinc gluconate oral liquid	RMB30.00 to RMB50.00	Promotional discounts
Western medicine	Amoxicillin capsules	RMB15.84 to RMB18.00	Promotional discounts
Chinese patent medicine	Yixin dehumidifying and analgesic Capsules	RMB450.00 to RMB468.00	Promotional discounts
Chinese patent medicine	Huoxiangzhengqi oral liquid	RMB5.00 to RMB6.50	Promotional discounts
Chinese medicine material and decoction pieces	Shandong Dong'e donkey-hide gelatin	RMB378.00 to RMB480.00	Change in procurement costs
Chinese medicine material and decoction pieces	Cordyceps	RMB226.00 to RMB260.00 ⁽²⁾	Change in procurement costs
Medical devices	Ancient prescription Westergren anti-inflammation and analgesic patch	RMB16.00 to RMB19.00	Promotional discounts
Medical devices	81 flavor bonesetting and analgesic patch	RMB48.00	N/A
Family planning products	Sildenafil citrate tablets	RMB498.00	N/A
Family planning products	Levonorgestrel tablets	RMB26.00 to RMB32.00	Change in procurement costs
Healthcare products . . .	99 Henna	RMB45.00 to RMB98.00	Promotional discounts
Healthcare products . . .	Yidijia antibacterial agent	RMB112.64 to RMB128.00	Promotional discounts
Non-pharmaceutical products including cosmetic products and daily necessities	“Jinlongyu” colza oil	RMB79.50 to RMB79.80	Change in procurement costs
Non-pharmaceutical products including cosmetic products and daily necessities	New Year greetings delicacies gift box	RMB318.00 to RMB518.00	Promotional discounts

Notes:

(1) Unless otherwise noted, the price ranges are calculated based on the smallest individual package, which remained unchanged during the Track Record Period.

(2) The price range is calculated on a per gram basis.

During the Track Record Period, we did not experience any material price fluctuations.

BUSINESS

We offer a wide variety of prescription medicines. Our in-store pharmacists or prescription reviewers verify the validity, accuracy and completeness of all prescription orders. Our pharmacist or prescription reviewers also perform a drug utilization review in which they cross-check every prescription against the customer's submitted information for drug, disease and allergic reactions. We started to promote our "Remote Prescription Review" system in 2013 to attract more franchisees and installed the system in January 2014 at our franchise retail pharmacy stores and self-operated retail pharmacy stores in Chengdu. We are the first company in Chengdu that has received approval from the government to adopt such a system. Through the system, one pharmacist will be able to oversee 25 stores at the same time and provide prescription review and pharmaceutical consulting services to end consumers, which we believe will enhance our operational efficiency of our retail chain stores.

Sales and Marketing

We have established a customer loyalty program in our self-operated retail pharmacy stores through which we issue membership cards to our customers. Membership cardholders receive discounts and bonus points on purchases of products, which we believe provides an added incentive for customers to shop at "Pa Shun" branded pharmacy chain stores. We believe that our customer loyalty program could enhance brand recognition and promotes customer loyalty. In addition, we regularly carry out training programs on medical information, nutritional information, selling skills and customer interaction for our store staff and pharmacists, as well as management training for our store managers.

PHARMACEUTICAL MANUFACTURING

We are engaged in the manufacturing and sales of our own pharmaceutical products. We conduct these functions through Chengdu Pashun. We currently manufacture and sell six pharmaceutical products, Zhenghonghua embrocation (正紅花油), Honghua embrocation (紅花油), Baihua embrocation (白花油), Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏), Antipruritic Ointment for Cicatrix (疤痕止癢軟化乳膏) and Ampicillin Capsules (氨苄西林膠囊). During the Track Record Period, our Zhenghonghua embrocation (正紅花油) had a market share of over 40% in the PRC in each of 2011, 2012 and 2013 in terms of total retail sales revenue, accounting for the largest market share in the Zhenghonghua embrocation product category, according to NFS.

According to NFS, as a result of the implementation of Administration Measures for Drug Registration (藥品註冊管理辦法) and the tightening of approval process for pharmaceutical manufacturing due to quality and safety concerns, it takes over three years for the CFDA to grant manufacturing permit for an ordinary pharmaceutical product. As a result, the number of our competitors in the PRC in this product sector is and will likely remain limited. We have targeted ordinary family users as the main customers of our products and focused on rural areas and second-tier and third-tier cities in the PRC as our target market.

During the Track Record Period, we generated RMB79.8 million, RMB80.9 million and RMB110.8 million in turnover from pharmaceutical manufacturing for the years ended December 31, 2012, 2013 and 2014, respectively, accounting for 11.2%, 10.2% and 13.1% of our total turnover for the same periods, respectively. The decrease from 2012 to 2013 in the percentage of our pharmaceutical manufacturing business representing in our total turnover was primarily due to the following reasons: (i) the increase in our pharmaceutical distribution revenue outpaced the revenue growth of our pharmaceutical manufacturing business; and (ii) to ensure the leading market position of our Zhenghonghua embrocation we strictly controlled the price and regional sales volume. The percentage that our pharmaceutical

BUSINESS

manufacturing business represented in our total turnover increased from 2013 to 2014 primarily because (i) revenue from pharmaceutical manufacturing increased significantly due to our expanded markets and our enhanced promotion to sub-distributors; and (ii) our pharmaceutical manufacturing revenue growth outpaced pharmaceutical distribution revenue growth.

Our Products

Details of our six pharmaceutical products are as follows:

<u>Product</u>	<u>Product Category</u>	<u>Main Application</u>	<u>Brand</u>
Zhenghonghua embrocation (正紅花油)	Embrocation	Rheumatic pain, sprains, cold, headache, mosquito bites	Zhenlong (真龍) ⁽¹⁾
Honghua embrocation (紅花油)	Embrocation	Rheumatic pain, sprains, cold, headache, skin prurates	Zhenlong (真龍)
Baihua embrocation (白花油)	Embrocation	Arthritis pain, cold, headache, sprains	Zhenlong (真龍)
Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏)	Dermatological application	Pruritus localis, neurodermatitis, contact dermatitis, seborrheic dermatitis, chronic eczema	Keqi (克奇)
Antipruritic Ointment for Cicatrix (疤痕止癢軟化乳膏) . .	Dermatological application	Hypertrophic scars after ambustion or surgery	Xuanmei (璇美) ⁽²⁾
Ampicillin Capsules (氨苄西林膠囊)	Antibiotics	Respiratory tract infection, urinary tract infection, digestive tract infection, ear-nose-throat infection, skin infection, and soft tissue infection that are caused by sensitive pathogenic bacterium	Baixin Anbixian (百信安比先) ⁽³⁾

BUSINESS

Notes:

- (1) Our Zhenghanghua embrocation is under “Zhenlong” (真龍) brand. “Xingjiapo” (星嘉坡) is also our registered trademark for Zhenghonghua embrocation, which is printed on the packing boxes of our Zhenghonghua embrocation, together with “Zhenlong” (真龍).
- (2) An Independent Third Party granted an exclusive license of the trademark of Xuanmei (璇美) to Chengdu Pashun for a term starting from February 21, 2014 to February 20, 2019.
- (3) Chengdu Pashun Chain Store entered into trademark license agreements with Wuhan Baixin Holdings Group Limited* (武漢百信控股集團有限公司), pursuant to which Wuhan Baixin Holdings Group Limited* (武漢百信控股集團有限公司) agreed to license the trademarks of Baixin Anbixian (百信安比先) to Chengdu Pashun Chain Store. The governmental approval of such license is still under progress. It is expected that such approval will be obtained by the end of 2015.

The following are sample photos of our major self-manufactured products:



Our self-manufactured Zhenghonghua embrocation are on the local supplemental lists of National List of Essential Drugs of 19 provinces, municipalities and autonomous regions in the PRC.

During the Track Record Period, our sales of the pharmaceutical manufacturing segment were generally higher during the summer and winter seasons. We generally have higher sales of our Zhenghonghua embrocation during the summer due to insect bites and the winter as a result of higher incidences of arthritis and certain other illnesses as well as injuries due to cold weather.

BUSINESS

Price Ranges

The table below sets forth the price ranges of our self-manufactured products:

Name of product	Size of product	Price ranges
Zhenghonghua embrocation	24.625 g	RMB2.00 to RMB3.90
	19.7 g	RMB1.90 to RMB3.90
	5.4175 g	RMB0.50 to RMB1.30
	24.625 g (in a spray bottle)	RMB3.30 to RMB6.50
Honghua embrocation	27 g	RMB10.76 to RMB17.09
	16 g	RMB4.00 to RMB6.50
Baihua embrocation	5.4175 g	RMB2.00 to RMB3.60
Ampicillin Capsules	6 g	RMB2.70 to RMB5.20
	9 g	RMB4.80
Compound Dexamethasone Acetate Cream	20 g	RMB0.75 to RMB2.80
Antipruritic Ointment for Cicatrix	6 g	RMB4.00 to RMB6.00

The table below sets forth the average selling price per gram of our self-manufactured products during the Track Record Period:

Product	Size	For the years ended December 31,		
		2012	2013	2014
Zhenghonghua embrocation	1g	RMB0.14	RMB0.13	RMB0.14
Honghua embrocation	1g	RMB0.54	RMB0.53	RMB0.53
Baihua embrocation	1g	RMB0.41	RMB0.38	RMB0.39
Ampicillin Capsules	1g	RMB0.53	RMB0.48	RMB0.49
Compound Dexamethasone Acetate Cream	1g	RMB0.08	RMB0.03	RMB0.07
Antipruritic Ointment for Cicatrix . . .	1g	RMB0.69	RMB0.85	RMB0.85

During the Track Record Period, the average selling price of our Zhenghonghua embrocation decreased from RMB0.14 per gram in 2012 to RMB0.13 per gram in 2013 because our sales of our Zhenghonghua embrocation in a spray bottle, which had a relatively higher average selling price, were lower in 2013. The average selling price of our Zhenghonghua embrocation increased to RMB0.14 per gram in 2014 primarily because inter-segment sales of Zhenghonghua embrocation as a percentage of its total sales decreased as external sales increased, which caused its average selling price to increase because the selling prices for external sales are generally higher than the selling prices for inter-segment sales. There has been no material fluctuation in the selling price of most of our major products for the pharmaceutical segment during the Track Record Period.

BUSINESS

Raw Materials

The principal raw materials used for our products are the necessary active ingredients of our pharmaceutical products, such as methyl salicylate, turpentine and white camphor oil. During the Track Record Period, raw material costs accounted for approximately 91.1%, 90.5% and 92.0% of our total costs of sales for the pharmaceutical manufacturing segment for the years ended December 31, 2012, 2013 and 2014, respectively. We source raw materials, as well as packaging materials and supplemental materials, from various suppliers in China who are Independent Third Parties. We generally compare the prices of raw materials and supplies from various suppliers prior to sourcing raw materials from third parties. The purchase price of our relevant raw materials is generally based on the prevailing market price for such materials of similar quality. We generally maintain raw materials for one to two month's supply.

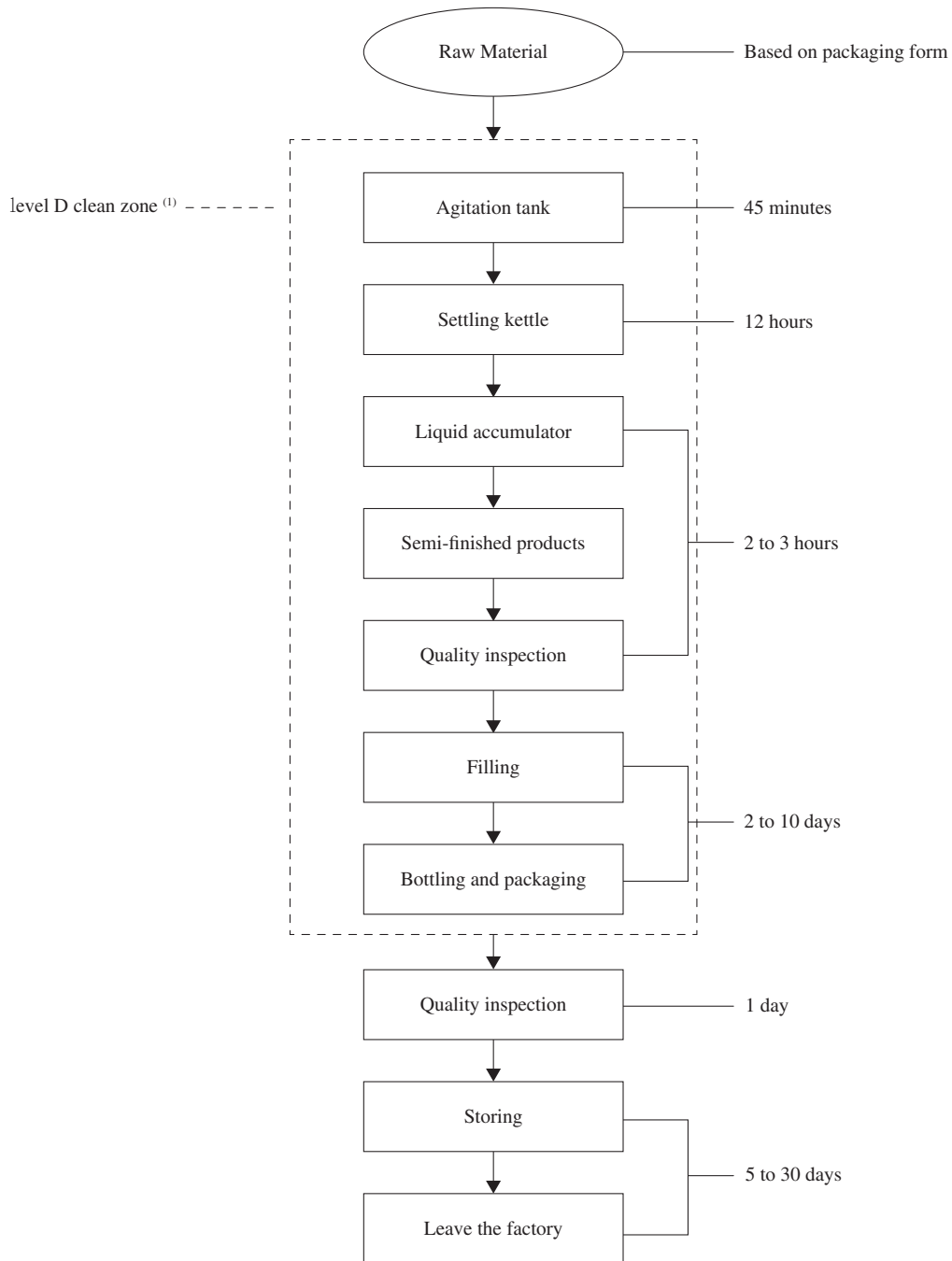
We do not have long-term contracts with any of our suppliers of raw materials, which we believe is in line with standard practice in the industry. We believe that alternative raw material suppliers for almost all of our products are readily available and the loss of any single supplier would not have a material impact on our operations. We have the right to return raw materials to suppliers if the raw materials are contaminated or damaged, or their effective dates have expired. During the Track Record Period and as of the Latest Practicable Date, we had not experienced any major interruptions in the supply of raw materials and other supplies. We believe that we have maintained good relationships with our suppliers, which enables us to procure raw materials in a reliable manner. In addition, we generally have alternative sources of supply for each type of our raw materials, and therefore we do not anticipate significant difficulties in sourcing them.

Production Facilities and Production Process

As of the Latest Practicable Date, we had approximately 45 employees in our pharmaceutical manufacturing plant, which is located in Chengdu, Sichuan province. We have obtained all relevant licenses, permits and certificates for our pharmaceutical manufacturing operations in all material respects. We adhere to very stringent and closely monitored quality assurance and safety control processes in the manufacturing of our products. We believe that our manufacturing expertise and efficiency enables us to produce quality products cost-effectively and to sell such products at competitive prices.

BUSINESS

Our GMP certified manufacturing facilities are located in Chengdu, Sichuan province with three production lines. We received the GMP certificates on January 5, 2011. All of our own pharmaceutical products are manufactured in Chengdu. We have advanced equipment and automated machinery for our manufacturing process, together with quality assurance and control systems, all of which comply with GMP requirements. The flowchart below sets out the production process of our three kinds of embrocation:



BUSINESS

Note

- (1) According to the GMP requirement, we have a level D clean zone under which we maintain temperature of 18°C to 26°C and relative humidity of 45% to 65% during the production process.

Production Capacity and Utilization Rate

The following table sets forth information on the designed capacity, actual production volume and utilization rates of our pharmaceutical manufacturing operations as of and for the years ended December 31, 2012, 2013 and 2014, respectively:

	As of and for the year ended December 31, 2012			As of and for the year ended December 31, 2013			As of and for the year ended December 31, 2014		
	Designed capacity	Production volume	Utilization rate	Designed capacity	Production volume	Utilization rate	Designed capacity	Production volume	Utilization rate
	('000 gram)	('000 gram)	(%)	('000 gram)	('000 gram)	(%)	('000 gram)	('000 gram)	(%)
Embrocation	1,010,000	606,086	60.0	1,010,000	653,358	64.7	1,010,000	810,743	80.3
Cream	160,000	4,511	2.8	160,000	7,892	4.9	160,000	–	–
Capsule	45,000	10,016	22.3	45,000	10,162	22.6	45,000	15,732	35.0

Notes:

- (1) Designed capacity as of December 31, 2012, 2013 and 2014 is calculated by assuming that the production is carried out on all of our production lines for one shift of 8 hours per day and 240 days per year.
- (2) Production volume is calculated using 1,000 grams as unit.
- (3) Utilization rate is calculated by dividing the production volume by the designed capacity for the same period.

The relatively low utilization rates for cream (for the years ended December 31, 2012 and 2013) and capsule production (for the years ended December 31, 2012, 2013 and 2014) were primarily because: (i) price ceilings imposed on antibiotics resulted in the decrease in the average price of our Ampicillin Capsules which led to fewer purchase orders; and (ii) our cream products were relatively new to the market which resulted in fewer purchase orders. We did not produce cream products in the year ended December 31, 2014 to focus our resources on our more profitable product lines. We have received customer orders for cream products and resumed cream production in May 2015.

Production Equipment

We use a variety of equipment in our pharmaceutical manufacturing. We implement strict repair and maintenance procedures for major equipment. The equipment operators fill in and submit the operation records for major equipment to the engineering department every month. The equipment administrators inspect and analyze the condition of major equipments. The equipment repairers conduct regular maintenance to the equipments and repair the broken-down equipments in a timely manner.

BUSINESS

The following table sets forth a list of our major production equipment and their maintenance information:

	<u>Equipment</u>	<u>Owned or leased</u>	<u>Time of manufacture</u>	<u>Time to replace or upgrade</u>	<u>Frequency of maintenance</u>	<u>Next scheduled time for maintenance</u>
1	Bottle washing machine	Owned	April 2002	15 years	Minor maintenance: every three months Medium maintenance: every year Major maintenance: every three years	October 2015 November 2015 September 2015
2	Four-tube liquid filling machine	Owned	February 2010	15 years	Minor maintenance: every three months Medium maintenance: every year Major maintenance: every three years	October 2015 November 2015 September 2015
3	Vacuum emulsification machine	Owned	January 2002	15 years	Minor maintenance: every three months Medium maintenance: every year Major maintenance: every three years	November 2015 October 2015 October 2016
4	Automatic filling machine	Owned	February 2002	15 years	Minor maintenance: every three months Medium maintenance: every year Major maintenance: every three years	November 2015 October 2015 October 2016
5	Multidirection movement mixer	Owned	June 2006	15 years	Minor maintenance: every three months Medium maintenance: every year Major maintenance: every three years	December 2015 March 2016 September 2016

BUSINESS

	<u>Equipment</u>	<u>Owned or leased</u>	<u>Time of manufacture</u>	<u>Time to replace or upgrade</u>	<u>Frequency of maintenance</u>	<u>Next scheduled time for maintenance</u>
6	Full-automatic capsule filling machine	Owned	January 2010	15 years	Minor maintenance: every three months Medium maintenance: every year Major maintenance: every three years	December 2015 September 2015 March 2016
7	Auto-blister packaging machine	Owned	September 2003	15 years	Minor maintenance: every three months Medium maintenance: every year Major maintenance: every three years	December 2015 September 2015 March 2016
8	Automatic paper folding machine	Owned	January 2009	15 years	Minor maintenance: every three months Medium maintenance: every year Major maintenance: every three years	December 2015 February 2016 October 2017
9	Electronic pharmaceutical code supervision system	Owned	December 2010	15 years	Depending on working condition	Upgrade by the software system

Distribution of Self-Manufactured Products

For the years ended December 31, 2012, 2013 and 2014, we primarily sold our self-manufactured products on a wholesale basis to our distributors at a discount to the suggested retail price, who in turn sell the products to end customers or resell the products to their sub-distributors. We deliver our products to a location designated by our distributors and we recognize revenue upon acceptance of our products by our distributors. We believe that our distributorship business model is commonly adopted by pharmaceutical manufacturers in China and enables us to expand our distribution network to a wide geographical area by leveraging the local market knowledge of our distributors and/or their sub-distributors. We generally have more than three years of relationship with our distributors. Our distributors are typically not allowed to return the products they have purchased, except in cases of quality issues in which case our distributors are typically required to notify us three months upon receipt of our products. During the Track Record Period, we did not receive any returned products from our distributors. We strictly follow the GMP requirements for unsold or obsolete products.

BUSINESS

Distribution Network

Our distributors and their sub-distributors have established an extensive retail network for our self-manufactured products, covering 30 provinces, municipalities and autonomous regions in China as of the Latest Practicable Date.

The shaded area in following map represents the geographical coverage of our current distribution network:



The following table sets forth the changes in the number of our distributors during the periods indicated:

	Year ended December 31,		
	2012	2013	2014
At the commencement of year	195	201	195
Additions of new distributors	13	11	—
Termination of existing distributors	7	17	2
Net increase/(decrease) in distributors	6	(6)	(2)
At the end of year	<u>201</u>	<u>195</u>	<u>193</u>

BUSINESS

The additions of distributors during the years ended December 31, 2012 and 2013 were primarily due to our expanded markets in (i) Shanxi, Jiangsu, and Zhejiang provinces and in Northeastern China; (ii) Eastern China and in Shandong, Hunan and Hebei provinces; and (iii) Guizhou and Jiangxi provinces, respectively. We did not add any new distributor in 2014.

The terminations of distributors during the year ended 2012 were primarily due to their failure to meet our sales performance expectations. The terminations of distributors during the year ended December 31, 2013 were primarily because (i) of their failure to meet our sales performance expectations; and (ii) we integrated our distribution resources by terminating our relationships with relatively small-size customers. The terminations of distributors during the year ended December 31, 2014 were primarily due to their failure to meet our sales performance expectations.

The following table sets forth the changes in the number of the sub-distributors during the periods indicated:

	For the year ended December 31,		
	2012	2013	2014
At the commencement of year	355	345	351
Additions of new sub-distributors	13	22	5
Termination of existing sub-distributors.	23	16	1
Net increase/(decrease) in sub-distributors.	(10)	6	4
At the end of year	345	351	355

During the years ended December 31, 2012, 2013 and 2014, increases of sub-distributors were primarily because (i) distributors we engaged to help us penetrate into new markets engaged sub-distributors; and (ii) the terminations of sub-distributors were mainly due to termination of our relationship with certain distributors.

Criteria for Selection of Distributors

We generally select distributors which are able to satisfy our assessment criteria, including operation ability, credit standing, years of operation, and sales network. We establish profiles for our distributor candidates, which include, among others, their registered capital, business scope, number of employees, and major products. We inspect our distributors' business licenses, tax registrations and other relevant certificates.

BUSINESS

Distribution Agreements with our distributors

We typically enter into distribution agreement with each of our distributors for one year period and renew distribution agreements upon expiration with distributors which meet the annual purchase amounts specified in the distribution agreements of the preceding year. Our distribution agreement with each of our distributors generally includes the following principal terms:

- **Duration:** Generally one year and are renewable by mutual consent subject to negotiation of new terms prior to expiration.
- **Designated geographic areas:** Distributors are typically authorized to establish retail outlets to sell our products within designated areas or geographical regions or engage sub-distributors to operate retail outlets within designated geographical areas provided that their sub-distributors operate in compliance with our sale policies. We generally do not grant exclusive distribution rights to our distributors.
- **Annual purchase amount:** Our distributors and us generally agree on a minimum annual purchase amount when we enter into the agreement.
- **Our principal rights and obligations:** We have the right to check sales and inventory of our distributors, and our distributors have the responsibility to assist us in such circumstances. We have obligations to (i) provide training to our distributors with respect to relevant product information and market knowledge; and (ii) provide promotional materials.
- **Principal rights and obligations of distributors:** Our distributors have the right to (i) sell our products within designated geographic areas; and (ii) apply to become a member of Baixin Club. The members of Baixin Club enjoy benefits such as additional training and travelling organized by us. Our distributors have obligations to (i) provide sales and inventory data to us every one to two months; (ii) maintain product inventories that is at the minimum three weeks of our average sales; (iii) strictly comply with our pricing policies, in particular, our agreed to minimum sales price; and (iv) use their best efforts to participate in the promotional events organized by us.
- **Sale and pricing policies:** Our distributors are required to strictly adhere to the pricing for our products, which are agreed to when we enter into the distribution agreements. Product prices may be modified according to changes in the market upon our written notice.
- **Payment:** Our distributors are generally required to pay us the full purchase prices of the products within 90 days of delivery to the designated warehouses. During the Track Record Period, we granted 180-day credit periods to a small portion of our distributors. Our distributors are eligible for a 3% price discount if they make pre-payments for the products.
- **Sales return policy:** Apart from products defects caused by quality issues, distributors are not allowed to return the products they have purchased from us.

BUSINESS

- **Termination:** We are entitled to terminate the distribution agreement with our distributors when (i) our distributors and us have no business transactions for three months consecutively; (ii) the total purchased amount for the first six months is lower than 50% of the agreed to annual purchase amount; (iii) a distributor sells a product below our suggested minimum price, (iv) a distributor continues to sell outside of its designated geographic area after receiving our notice to cease such activity; (v) a distributor loses its relevant licenses to distribute pharmaceutical products; and (vi) a distributor fails to make payments within the credit period.
- **Penalty:** We hold the right to fine our distributors who (i) sell our products outside of their designated geographic area; or (ii) sell below our suggested minimum retail price. Penalties include a fine of 10% of the total sales relating to the sales violation and reduction of a distributor's year-end commission.

Management of our distributors

We specify the lowest selling prices in our distribution agreements with our distributors. We also require our distributor to sell our products within designated geographic areas otherwise we have the rights to terminate the distribution agreements. In addition, we assist our distributors in their market promotion activities and provide training programs to our distributors.

We do not have direct contractual relationships with sub-distributors. We rely on our distributors to manage their sub-distributors and to ensure that their sub-distributors comply with our policies. In addition, although we do not have direct contractual relationships with the sub-distributors engaged by our distributors, we are still entitled to claim against the sub-distributors. In addition, we conduct regular visits to the retail outlets operated by the sub-distributors in order to ensure that they comply with our sales and pricing policies. By allowing the engagement of sub-distributors by our distributors, we are able to effectively manage a smaller number of distributors. We believe that this strategy enables us to focus more on assisting our distributors to improve their operation of retail outlets and to manage them more effectively.

Healthcare and Cosmeceutical Product Outlet

We operate a healthcare and cosmeceutical product outlet in Chengdu, Sichuan province, which is one of the largest outlets for healthcare and cosmeceutical products in southwestern China, according to NFS. The outlet has a floor area of approximately 2,000 sq.m. with over 50 concession shops which sell healthcare and cosmeceutical products. We own the premises for this outlet and rent out space to retailers who are Independent Third Parties for them to set up concession shops. They pay us rent on a semi-annual basis. We believe that such an outlet helps to enhance our corporate image and brand recognition, and enables us to meet the growing demand for healthcare and cosmeceutical products.

CUSTOMERS

During the Track Record Period, our five largest customers were Independent Third Parties. For the years ended December 31, 2012, 2013 and 2014, our sales to our five largest customers together accounted for approximately 16.5%, 25.4% and 29.5% of our total turnover, respectively. In the same periods, our sales to our largest customer accounted for approximately 4.6%, 9.5% and 8.0% of our total turnover, respectively.

BUSINESS

None of our Directors, their respective associates, nor any of our Shareholders holding more than 5% of our issued share capital, is related to or owns any interest in any of our five largest customers for the years ended December 31, 2012, 2013 and 2014.

Our trade and commercial bills receivables mainly represent the credit sales of our products to be paid by our customers and consist of accounts receivables. As of December 31, 2012, 2013 and 2014, our trade and commercial bills receivables were approximately RMB145.6 million, RMB173.9 million and RMB239.1 million, respectively. We monitor the recoverability of our overdue trade receivables on a regular basis and when appropriate, provide for impairment of such trade receivables. As of December 31, 2012, 2013 and 2014, our provision for doubtful trade receivables were approximately RMB7.5 million, RMB10.5 million and RMB9.3 million, respectively. For further details of our provisioning policy for trade receivables and the amount of our provisions, please see the section headed “Financial Information — Selected Consolidated Statement of Financial Position Information — Trade and Other Receivables”.

The table below sets forth our top five customers during the Track Record Period:

For the year ended December 31, 2014

Customer	Background	Credit terms (days)	Years of relationship with us ⁽¹⁾
E	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30–180 days	eleven years
M	principally engaged in wholesale and retail of Western medicine, Chinese medicine and medical devices	30 days	four years
B	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, and retail of medical devices	30–180 days	ten years
J	principally engaged in wholesale of Western medicine, Chinese patent medicine, and retail of medical devices	30 days	six years
O	principally engaged in wholesale of Western medicine, and Chinese patent medicine	30 days	two years

Note:

(1) Rounded to the nearest whole year.

BUSINESS

For the year ended December 31, 2013

<u>Customer</u>	<u>Background</u>	<u>Credit terms (days)</u>	<u>Years of relationship with us⁽¹⁾</u>
A	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	five years
B	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, and retail of medical devices	180 days	nine years
C	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	ten years
D	principally engaged in wholesale of Western medicine, Chinese patent medicine, medical devices, and healthcare products	30 days	one year
E	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 to 180 days	ten years

Note:

(1) Rounded to the nearest whole year.

BUSINESS

For the year ended December 31, 2012

<u>Customer</u>	<u>Background</u>	<u>Credit terms (days)</u>	<u>Years of relationship⁽¹⁾</u>
C	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	nine years
B	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, and retail of medical devices	180 days	eight years
E	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	180 days	nine years
F	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	180 days	five years
D	principally engaged in wholesale of Western medicine, Chinese patent medicine, medical devices, and healthcare products	30 days	less than one year

Note:

(1) Rounded to the nearest whole year.

Pharmaceutical Distribution

We have a broad customer base including pharmaceutical wholesalers, franchise retail pharmacy stores, and hospitals and other medical institutions in rural areas. We distribute pharmaceutical and healthcare products to pharmaceutical wholesalers that in turn distribute to end-customers. Franchise retail pharmacy stores are the franchise retail pharmacy stores under our “Pa Shun” brand. Hospitals and other medical institutions are mainly public hospitals and other medical institutions located in rural areas in the Chengdu region in Sichuan province. In addition, we offer a broad range of logistics and value-added services designed to enhance the operating efficiencies and competitive positions of our customers, thereby allowing them to improve the safety and effectiveness of healthcare services for their patients and consumers.

Self-operated Retail Pharmacies

The customers of our self-operated retail pharmacy stores under our “Pa Shun” brand name are primarily urban residents. We have established a customer loyalty program through which we issue membership cards to our customers. We believe that our customer loyalty program provides an added incentive for customers to shop at “Pa Shun” branded pharmacy chain stores.

BUSINESS

Pharmaceutical Manufacturing

We primarily sell our self-manufactured products on a wholesale basis to our distributors at a discount to the suggested retail price. The distributors in turn sell the products to end customers or resell the products to their sub-distributors. As of December 31, 2014, we had 193 distributors in the PRC. For the years ended December 31, 2012, 2013 and 2014, sales of our own products accounted for 11.2%, 10.2% and 13.1%, respectively, of our total turnover.

SUPPLIERS

We have more than three years of relationship with our major suppliers, all of which are domestic suppliers. During the Track Record Period, our five largest suppliers were Independent Third Parties. For the years ended December 31, 2012, 2013 and 2014, our purchases from our five largest suppliers together accounted for approximately 28.7%, 38.2% and 43.6% of our total cost of sales, respectively. In the same periods, our purchase from our largest supplier accounted for approximately 9.8%, 9.8% and 13.7% of our total cost of sales, respectively.

None of our Directors, their respective associates, nor any of our Shareholders hold more than 5% of our issued share capital, is related to or owns any interest in any of our five largest suppliers for the years ended December 31, 2012, 2013 and 2014.

The table below sets forth our top five suppliers during the Track Record Period:

For the year ended December 31, 2014

<u>Supplier</u>	<u>Background</u>	<u>Credit terms (days)</u>	<u>Years of relationship with us ⁽¹⁾</u>
E	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	eleven years
H	principally engaged in wholesale of Western medicine, Chinese patent medicine, and retail of medical devices	30 days	three years
K	principally engaged in research and development as well as manufacturing and operations of Western medicine, Chinese patent medicine, and Chinese medicine material and decoction pieces	0 to 30 days	eleven years
J	principally engaged in wholesale of Western medicine, Chinese patent medicine, and retail of medical devices	30 days	six years
F	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	180 days	eight years

Note:

(1) Rounded to the nearest whole year.

BUSINESS

For the year ended December 31, 2013

<u>Supplier</u>	<u>Background</u>	<u>Credit terms (days)</u>	<u>Years of relationship ⁽¹⁾</u>
A	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	five years
H	principally engaged in wholesale of Western medicine, Chinese patent medicine, and retail of medical devices	30 days	two years
C	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	ten years
E	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	ten years
D	principally engaged in wholesale of Western medicine, Chinese patent medicine, medical devices, and healthcare products	30 days	one year

Note:

(1) Rounded to the nearest whole year.

For the year ended December 31, 2012

<u>Supplier</u>	<u>Background</u>	<u>Credit terms (days)</u>	<u>Years of relationship ⁽¹⁾</u>
E	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	nine years
C	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	nine years
D	principally engaged in wholesale of Western medicine, Chinese patent medicine, medical devices, and healthcare products	30 days	less than one year
I	principally engaged in wholesale of Western medicine, Chinese patent medicine, Chinese medicine material and decoction pieces, medical devices, and healthcare products	30 days	three years
H	principally engaged in wholesale of Western medicine, Chinese patent medicine, and retail of medical devices.	30 days	one year

Note:

(1) Rounded to the nearest whole year.

BUSINESS

Pharmaceutical Distribution

We source pharmaceutical and healthcare products from pharmaceutical manufacturers and commercial suppliers for pharmaceutical distribution business. We believe that alternative suppliers or alternative products are readily available for substantially all of the products we stock, and the loss of any one supplier would not have a material effect on our operations. Although we generally do not have long term written contracts with our major suppliers, we have not experienced material difficulty in maintaining reliable sources of supply, and we generally expect to be able to maintain adequate sources of supplies of pharmaceutical and other products sold in our retail pharmacy chain stores. The payment and credit terms vary among the supply agreements with our suppliers which generally include three types: (i) paying the full purchase prices of the products upon delivery to our designated warehouse; (ii) making prepayments amounting to 30% to 50% of the full purchase prices of the products before delivery to our designated warehouse; and (iii) paying the full purchase prices of the products within 30 to 90 days of delivery to our designated warehouse.

Self-operated Retail Pharmacies

For our self-operated retail pharmacy stores in Sichuan province, we source pharmaceutical and healthcare products and medical devices from pharmaceutical manufacturers and commercial suppliers through Chengdu Kexun. We generally do not have long-term written agreements with our major suppliers for our self-operated retail pharmacy operation. The payment and credit terms of the products are the same as those in the supply agreements with our suppliers of pharmaceutical distribution business. Please see “— Suppliers — Pharmaceutical Distribution” for further details. In addition, we source cosmetic products and daily necessities from V-drug Chengdu. We are generally required to pay the full purchase prices of the products within 90 days of delivery to our designated warehouse.

For our self-operated retail pharmacy stores in Hebei and Hubei provinces, we primarily source pharmaceutical and healthcare products from pharmaceutical manufacturers and commercial suppliers directly or through Chengdu Kexun. For products we source directly from pharmaceutical manufacturers and commercial suppliers, we are generally required to pay the full purchase prices of the products upon delivery or within 30 to 90 days of delivery to our designated warehouse.

Pharmaceutical Manufacturing

We procure raw materials, including methyl salicylate, turpentine, and white camphor oil, to manufacture our own pharmaceutical products. We require that our suppliers provide us with evidence of licenses and permits necessary to conduct their operations, which may include business licenses, pharmaceutical production manufacturing permits, import registration certificates, GMP or other relevant licenses and other related documents. We usually purchase our raw materials and supplies from various suppliers to enhance our bargaining power and to avoid over-reliance on an individual supplier. We generally do not have long-term written contracts with our major suppliers for our pharmaceutical manufacturing. However, we believe that we have maintained good relationships with our suppliers that have enabled us to procure raw materials and supplies used for our manufacturing operations in a reliable manner. The payment and credit terms vary among the supply agreements with our suppliers which generally include three types: (i) paying the full purchase prices of the raw materials within seven days of delivery to our designated warehouse; (ii) making prepayments amounting to 30% of the full purchase prices of the raw materials before delivery to our designated warehouse; and (iii) paying the full purchase prices of the raw materials within 30 to 90 days of delivery to our designated warehouse. In order to

BUSINESS

manage fluctuations of raw material prices, we make comparisons between suppliers to seek reasonable prices. In addition, we generally maintain one to two months' supply to avoid short-term fluctuations of raw material prices. During the Track Record Period, we were able to pass the increase in purchase costs to our customers.

As of the Latest Practicable Date, we had not experienced any major interruptions in the supply of raw materials and other supplies for our pharmaceutical manufacturing operations. We believe that our raw materials and supplies purchased from our suppliers are fungible and as a result, we do not anticipate significant difficulties in obtaining alternative sources of supply.

OVERLAP BETWEEN CUSTOMERS AND SUPPLIERS

We had customers that were also our suppliers during the Track Record Period. During the Track Record Period, three, four and two of our five largest customers were also among our five largest suppliers for the years ended December 31, 2012, 2013 and 2014. All of our agreements with customers that were also our suppliers were entered into on an arm's length basis. According to NFS, in the pharmaceutical industry, the same products generally refer to products with the same title, volume, manufacturer and production batch number. Pharmaceutical products produced by the same manufacturer in the same batch have the same unique production batch number, which also contains the expiration date. According to NFS, products that are otherwise the same but have different expiration dates are viewed as having different intrinsic value and priced differently as a result. Therefore, if products have different production batch numbers, they are generally not regarded as the same products in the pharmaceutical industry, according to NFS. Based on the above industry definition provided by NFS, we did not sell and purchase the same products from any of those parties that were both our customers and suppliers during the Track Record Period. During the Track Record Period, we sold to and purchased from some customers certain products with the same title, volume and manufacturer but different production batch numbers. During the Track Record Period, our sales to customers that were also our suppliers of products with the same title, volume and manufacturer but different production batch numbers amounted to RMB45.2 million, RMB65.4 million and RMB70.5 million, respectively, for the years ended December 31, 2012, 2013 and 2014, representing 6.3%, 8.2%, and 8.3% of our total revenue during the same periods, and our purchases of such products from the customers that were also our suppliers amounted to RMB64.8 million, RMB103.5 million and RMB75.0 million, respectively, for the years ended December 31, 2012, 2013 and 2014, representing 11.1%, 16.1%, and 11.3% of our total cost of sales during the same periods. Sales of such products contributed 1.1% of our gross profit for the year ended December 31, 2012, 0.2% gross loss for the year ended December 31, 2013 and 1.0% of our gross profit for the year ended December 31, 2014, respectively.

For the three years ended December 31, 2012, 2013 and 2014, our total sales to all customers that were also our suppliers were RMB296.2 million, RMB376.8 million and RMB363.7 million, respectively, our total purchases from them were RMB426.7 million, RMB487.0 million and RMB395.2 million, respectively, and they contributed 13.2%, 13.0% and 11.9% of our gross profit for these periods. Our total sales to the parties that were among both our five largest customers and our five largest suppliers were RMB69.8 million, RMB161.7 million and RMB106.3 million and our total purchases from them were RMB124.6 million, RMB197.1 million and RMB128.3 million for 2012, 2013 and 2014, respectively. These parties contributed approximately 7.1%, 3.8% and 4.8%, respectively, to our gross profit for 2012, 2013 and 2014.

BUSINESS

Commercial Rationale for Overlap between Customers and Suppliers

In the pharmaceutical distribution business, wholesales by pharmaceutical distributors are characterized by large sales volumes with relatively low profit margin due to their trading nature. For products with the same title, manufacturer and volume, regardless of production batch number, the selling prices offered by different pharmaceutical distributors may be different as a result of one or more factors including the following: (i) source of supply. Depending on whether the product is procured from a manufacturer or another pharmaceutical distributor, procurement prices are usually different; (ii) purchase quantity. Sellers usually offer more favorable prices for large quantity purchases; (iii) costs, including transportation costs and other related costs; and (iv) sales channels. As a result, pharmaceutical distributors may have different selling prices and procurement prices depending on their specific circumstances, resources and sales strategies.

Despite the relatively low profit margin, pharmaceutical companies maintain the pharmaceutical wholesale business due to its economies of scale and its synergies with other business segments such as retail sales and sales to hospitals, which generate higher profit margin. Having a pharmaceutical wholesale business would allow a pharmaceutical company to secure a stable supply of products to their other business segments and therefore maintain their competitiveness within the pharmaceutical industry.

Within the pharmaceutical distribution segment, pharmaceutical distributors including us, generate a profit from the difference between the procurement price and the selling price of a pharmaceutical product. A sale occurs as long as pharmaceutical distributors, including us, are able to obtain a reasonable profit margin.

According to NFS, it is the industry norm for pharmaceutical distributors to have overlap between their customers and suppliers because there is a limited number of pharmaceutical distributors in a given geographical region and there is a great number of pharmaceutical products that are being sold and purchased within the same group of pharmaceutical distributors. We have no preference regarding whether the products sold and purchased are of the same title, volume and manufacturer or whether the customers or suppliers are our existing suppliers or customers. When we need to procure a certain product, we first make price inquiries in the market and then select the most favorable price quote. When more than one party offer the same favorable price quote, we often select the party we have done business with before due to familiarity of transaction process and mutual trust. As a result, we had transactions where we sold products to customers who were also our suppliers and we purchased products from suppliers who were also our customers. We engaged in these transactions because they were profit-generating and the counter-parties were able to settle payment with us.

Sale and Purchase of Products with Same Title, Volume and Manufacturer with Overlapping Customers-Suppliers

During the Track Record Period, the products that we purchased or sold to those customers that were also our suppliers primarily involved Western medicine and Chinese Patent medicine. These products are mainly widely-used medicine in the market and therefore commonly stocked or needed by pharmaceutical distribution companies in the market. As explained above, the pharmaceutical distribution market is highly competitive, we may sell and purchase products with the same title, volume and manufacturer with the same overlapping customers-suppliers at different times as long as we could identify favorable sales and purchase prices and attain a profit. We had no specific preference regarding whether the sales and purchase of the products are of the same title, volume and manufacturer as we sold

BUSINESS

or purchased before. However, we would not sell and purchase products with same title, volume, manufacturer and batch number, which made no economic sense of business.

As previously mentioned, the gross profit margin of pharmaceutical distribution has already been low. The products that we purchased or sold to those customers that were also our suppliers are popular in the market, which are usually of large supplies in the market leading to even more pricing pressure. For products included in the National List of Essential Drugs, their prices are set by the PRC government or required to follow the PRC government's pricing guidelines, leading to little or no pricing discretion for the seller. Government-imposed pricing control therefore led to even a lower gross profit for these products. The reasons for us to sell these products despite a low gross margin or sometimes even a gross loss include the following: (i) the customers purchased from us a basket of various products including such popular products with low profit margin and other products with high profit margin. We would still conduct business with these customers as long as we are able to generate satisfactory overall profits; (ii) to maintain a continuous business relationship with the customers by providing them with sufficient product varieties and quantities as long as we are able to attain a profit in order to keep them in our customer base; and (iii) to maintain a stable supply for our other more profitable business segments, such as franchise retail pharmacy chain stores, hospital and other medical institutions in rural areas and self-operated retail pharmacies.

In addition to generating profit from the difference between the procurement price and the selling price of a pharmaceutical product, pharmaceutical companies including us can also earn rebates from suppliers that are mainly pharmaceutical distributors if we achieve a pre-set annual target procurement volume. As a result, we might sell the products at lower sales price or even below the purchase price we purchased in order to earn the rebate and attain an overall better gross profit.

During the Track Record Period, our settlement arrangements with those customers that were also our suppliers consisted of payments on both gross and net bases. In most cases, we and those customers that were also our suppliers made separate payments for purchases from each other. In some instances when a purchase and a sale with the same party occurred close in time, the parties netted off payables and receivables and settled payment of the net amount.

INVENTORY

We actively manage and maintain our inventories to ensure compliance with GSP or GMP requirements, cost-efficiency, quality control and the timely distribution, sales and manufacturing of our pharmaceutical and healthcare products. Our senior management is actively involved in setting inventory standards, and is continually seeking ways to further improve our inventory control.

We determine the maximum and minimum levels of inventory for each product based on past sales history. We compile procurement plans based on the annual and monthly sales plans of each business segment and existing stock to ensure that we maintain reasonable levels of inventory. We also conduct regular inventory analysis to optimize our product offerings. We divide products in our inventory into three categories: (i) category A consists of products we want to promote and high margin and popular products; (ii) category B consists of essential drugs and other products required by our rural pharmaceutical distribution business and retail pharmacy stores; and (iii) category C consists of products for general distribution. We perform product sale data analyses tailored to each category to adjust our procurement and product offerings.

BUSINESS

Pharmaceutical Distribution

We manage our inventories with a focus on controlling our inventory holding costs, maintaining the variety of products available for our customers and ensuring the prompt delivery of our products to customers. With regard to pharmaceutical products that are in general use and have a steady market demand, we purchase them from suppliers on a regular basis to maintain certain inventory levels, regardless of when we receive customer purchase orders. With regard to specialized pharmaceutical products that are not commonly used, we only purchase them from suppliers upon receiving customer orders.

In compliance with the GSP requirements, we have established different types of storage systems based on the physical and chemical nature of each type of medicine including, among others, room temperature storage, cold storage, freezer storage and storage for valuable medicine. In addition, we have set up a coding system for our inventory management and assigned a three-digit code to the entire warehouse, so as to manage and control our inventories on a real-time basis.

As of the Latest Practicable Date, we had 56 staff responsible for inventory management. Of our 56 inventory management personnel, 16 have an educational background in pharmaceutical discipline.

Self-operated Retail Pharmacies

We have adopted information systems for our self-operated retail pharmacy operation. Such systems enable us to monitor and keep detailed records of the inventory levels at our self-operated retail pharmacy stores. At each self-operated retail pharmacy store, we typically maintain an inventory level sufficient for the expected sales for the next three months.

Pharmaceutical Manufacturing

We maintain a database for our inventory of raw materials, packaging materials and finished products. We carefully monitor our inventory levels to ensure that we maintain adequate levels of raw materials and finished products.

We generally keep one month's inventory level of finished products and one to two month of raw materials.

QUALITY CONTROL

We believe that the quality of our products is crucial to our continued growth. We place strong emphasis on achieving a consistent quality for our pharmaceutical distribution, self-operated retail pharmacy and pharmaceutical manufacturing. In addition, the PRC government has issued a series of national quality standards for the pharmaceutical industry, and we implement strict quality control procedures to ensure that we are in compliance with all applicable regulations and standards. Our comprehensive quality control system is designed according to the GMP or GSP requirements and we have received GMP or GSP certifications for our operations. We are committed to performing stringent quality control throughout every stage of our business operations including procurement, production, distribution and retail sales.

BUSINESS

As of the Latest Practicable Date, our quality control team consisted of 75 employees, including seven quality inspectors. Our quality control team is led by Ms. Zhang Suihui. Ms. Zhang has about 30 years of experience in the pharmaceutical industry and has experience working with a pharmaceutical company and general hospitals. Ms. Zhang obtained required qualifications for licensed pharmacist of Chinese medicine* (執業中藥師) in November 1999, and was accredited as a biomedical senior engineer* (生物醫藥高級工程師) in December 2012. For details of Ms. Zhang’s qualifications, please refer to the paragraph headed “Directors and Senior Management — Senior Management” in this prospectus.

Pharmaceutical Distribution

We fully comply with all relevant PRC laws and regulations and GSP requirements to ensure the quality of our operations. Our quality control staff are responsible for implementing quality control measures. We also have climate-controlled warehouses to maintain suitable storage conditions for the quality and safety of pharmaceutical products. We perform stringent quality control procedures throughout our distribution process, which starts from procurement, warehousing, to delivery.

Before engaging suppliers, our quality control staff review the qualifications and track records of the supplier candidates and only select those who meet our criteria. Before warehousing, our quality control staff inspect and examine the approval numbers and the packaging of the purchased products and verify the products according to the delivery order and the inspection report issued by the supplier. If such products do not pass the examination and verification, our quality control staff will notify the supplier without warehousing. If such products pass the examination and verification, our quality control staff will prepare the quality inspection report and procurement receipt for our records and store the products in our warehouse. For products stored in our warehouse, our quality control staff conduct regular quality inspection and monitor the storage conditions. Before delivery from our warehouse, quality control staff review and double check the quality of the products to be delivered.

In addition, certain specialty medicines are stored separately in controlled settings and overseen by specially-trained personnel. In order to comply with certain CFDA requirements we generally assign two specially-trained personnel to accompany the transport of such medicine. Expired medicine is stored in separate warehouses, and we immediately notify the relevant personnel to initiate the destruction procedures. Expired medicine is generally destroyed in two ways: (i) we return such medicine to where it originated; or (ii) we are given authorization to immediately destroy it in a controlled environment.

Self-operated Retail Pharmacies

Our quality control starts with procurement. In particular, we screen GMP-certified manufacturers and GSP-certified suppliers in China and select a core group of suppliers after reviewing their product selection and quality, manufacturing, packaging, transportation and storage capabilities, as well as cost competitiveness. We conduct spot quality inspections of each batch of products we receive.

We place strong emphasis on the quality of the services rendered by our self-operated retail pharmacy stores, including in-store pharmacists and store staff who directly interact with our customers. We regularly dispatch quality control inspectors to our self-operated retail pharmacy chain stores to monitor the service quality of store staff. During the Track Record Period, we had not experienced any claim, litigation and arbitration or material adverse findings in investigations or audits conducted by government authorities with respect to product liability, personal injury, wrongful death or advice given by our in-store pharmacists of our retail operations.

BUSINESS

Franchise Retail Pharmacy Stores

We generally assist our franchisees in obtaining and renewing GSP certificates. We conduct regular spot inspections to our franchise retail pharmacy stores. We also specify in our franchise agreement that all the products sold by the franchisees shall be purchased from us.

During the Track Record Period, our franchise retail pharmacy stores had not experienced any claim, litigation and arbitration or material adverse findings in investigations or audits conducted by government authorities with respect to product liability, personal injury, wrongful death or advice given by our in-store pharmacists of our retail operations.

Pharmaceutical Manufacturing

We have established quality control systems in accordance with the relevant PRC laws and regulations and have received GMP certification. Our quality control measures cover every stage of our pharmaceutical manufacturing operations.

Our quality control staff review the qualifications of our raw material suppliers before engaging them. They then conduct preliminary review of the purchased raw materials for the following items: (i) whether the packaging is complete; (ii) whether the number or amount of the raw materials is correct; and (iii) whether the name and approval numbers on the packaging are complete. If the preliminary review is passed, they will submit the quality inspection application to our quality department. Our quality control staff then conduct sampling inspection and issue the qualification report and put the qualification label on the raw materials. Afterwards, our manufacturing staff start production with the qualified raw materials. In the course of production, our quality control staffs inspect the quality of the semi-finished products. After the production procedures are completed, our quality control staff submit quality inspection application to the quality department. Then the quality inspector, who is generally required to have a bachelor's degree in pharmacy-related areas, will analyze and verify the quality data and sign the product release order if the products are qualified. Our warehouse management personnel dispatch products for delivery to customers based on the quality inspection report and product release order.

As a result of our stringent quality control procedures, we have not experienced any material safety problems of our products reported by our customers or relevant government authorities or any material product liability or legal claims due to the quality of our pharmaceutical products and have not been subject to any adverse findings in any investigation or audit by any government authority during the Track Record Period.

RESEARCH AND DEVELOPMENT

During the Track Record Period, we did not conduct any research and development activities, or incur any research and development expenses.

We intend to conduct research and development activities primarily through cooperation with technology companies. We entered into a technology cooperation agreement with Beijing Runbofude Biotechnology Development Co., Ltd. (北京潤博福得生物科技發展有限公司) (“Beijing Runbofude”), an Independent Third Party, on December 15, 2013. The technology cooperation agreement with Beijing Runbofude includes the following principal terms:

- Duration: from January 1, 2014 till December 31, 2023.

BUSINESS

- Our principal rights and obligations: We are exclusively authorized to use the patented technology developed by Beijing Runbofude to manufacture and sell near-infrared analyzer and detection kit of HPV within the PRC. We have the right to (i) determine the prices of the products with reference to the suggested prices set by Beijing Runbofude; and (ii) promote the patented products and take legal action against any patent infringement when necessary. We are not allowed to engage third parties to manufacture or sell the patented products without written consent by Beijing Runbofude.
- Principal rights and obligations of Beijing Runbofude: Beijing Runbofude has the obligations to (i) exclusively authorize us to use the patented technology developed by Beijing Runbofude to manufacture and sell near-infrared analyzer and detection kit of HPV; (ii) provide us with instructions, explanations and technical solutions; (iii) upgrade the patented technology as required by us; and (iv) legally hold the patent and comply with applicable laws and regulations of the PRC and national and industry standards. Beijing Runbofude is not allowed to transfer the patented technology or authorize any third party to use the patented technology during the term of the agreement. Beijing Runbofude has the right to assign accountants to audit the financial accounts of the patented products.
- Fees: We agreed to pay Beijing Runbofude (i) a one-off technology fee of RMB20.0 million; and (ii) during the term of the agreement: (a) 3.0% of the annual sales amounts of the patented products for the first three years; and (b) 2.0% of the annual sales amounts of the patented products beginning from the fourth year.

PRICING AND CREDIT TERMS

The PRC government amended the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) in April 2015 and issued three related implementation circulars on May 4, 2015. See “Regulations — PRC Laws and Regulations on the Pharmaceutical Industry — Regulatory Framework” for details. Under these regulatory changes, effective from June 1, 2015, the PRC government will no longer fix selling prices or impose price ceilings for pharmaceutical products except for certain specialty drugs.

The prices of products we distribute to pharmaceutical wholesalers and franchise retail pharmacy stores and sell at our self-operated retail pharmacy stores are primarily determined by us with reference to prevailing market prices. We set the prices based on a number of factors, including procurement and operation costs, target profit margin and market price. Market price, in turn, is primarily established through market-driven bidding processes at medical institutions. For products we distribute to hospitals and other medical institutions in rural areas, the prices are subject to the price guidance of Health and Family Planning Commission of Sichuan Province (四川省衛生和計劃生育委員會), which, in turn, refers to the following: (i) the essential drugs purchase prices issued by NDRC and the Development and Reform Commission of Sichuan Province (四川省發展和改革委員會); (ii) retail prices by pharmacies; (iii) actual purchase prices by medical institutions; and (iv) online price ceilings of essential drugs in Sichuan province. Please see “Regulations — Distribution of Pharmaceutical Products — The Rural Drug Distribution” for further details. The prices of our self-manufactured products are determined by us with reference to production costs, prevailing market price and our strategic planning.

BUSINESS

We generally grant a credit period of approximately 30 to 180 days to pharmaceutical wholesalers, 30 days to franchise retail pharmacy stores, 90 days to hospitals and other medical institutions in rural areas and 90 days to distributors of our self-manufactured products.

PRODUCT RETURN

We generally do not allow product returns, except for quality issues. Our suppliers generally provide quality assurance and they shall bear all liabilities if we become aware of any quality issues.

During the Track Record Period, we had one incident of product recall, which was related to defective capsules in our pharmaceutical distribution segment. According to the Notice on Strict Implementation of Batch Inspection of Gelatin Capsules for Pharmaceutical Use and Pharmaceutical Products in Capsule forms (關於嚴格實施藥用明膠膠囊和膠囊劑藥品批批檢的公告) issued by CFDA on April 27, 2012, the manufacturers and suppliers of the capsules that we distributed voluntarily initiated a product recall. Our quality control department then swiftly reached out to our customers to recall the relevant batches of capsules. The manufacturers and suppliers of the capsules bore all the liabilities and provided replacement or refund to us. As a result of our stringent quality control procedures, our self-manufactured capsules were not involved in the incident. The incident did not have a material adverse effect on our sales, results of operations, business operations or reputation. Other than this incident, we did not have any other significant incidents of product return during the Track Record Period. Since this incident, we required our suppliers to submit heavy metal detection reports to us before we source capsule products from them.

During the Track Record Period, we had a minimal amount of sale returns from our customers, which we returned to our suppliers. During the Track Record Period, sales returns represented 0.9%, 1.2% and 0.8% of our turnover for the years ended December 31, 2012, 2013 and 2014, respectively.

Generally, manufacturers shall bear the liability for product defects. We may also be liable for products we have sold, if such liability is due to improper storage or transportation by us. Where product defects are caused by the fault of a third party such as a carrier or warehouseman, we are entitled to reimbursement by the third party after we make compensation to consumers.

LOGISTICS

As of the Latest Practicable Date, we had three distribution centers, including one in Chengdu, Sichuan province, one in Hebei province and one in Hubei province. Our distribution centers are where we warehouse the pharmaceutical products we source from suppliers and arrange for distribution of products to customers and for customer pickups.

We have our own logistics team which is responsible for the delivery of products. Our logistics team consisted of 92 trained personnel as of the Latest Practicable Date. As of the Latest Practicable Date, we owned and operated 29 delivery vehicles, which we use to deliver products within a 200 km radius of our headquarters in Chengdu. For delivery of products to places outside the 200 km radius, we retain third-party logistics providers to ensure timely delivery of the products to our customers. Such third-party logistics providers bear the risk of loss or damage during delivery and transportation.

BUSINESS

INFORMATION SYSTEM

We have adopted information systems for our pharmaceutical distribution and self-operated retail pharmacy operations. Such systems enable us to receive real time sales, and inventory data, which allows us to monitor and keep detailed records of our procurement, pharmaceutical distribution activities and our self-operated retail pharmacy stores operation. We have also adopted an information system at our Japanese-style cosmeceutical stores, which enables us to gather information on end customer purchases, monitor customer preferences, make timely assessments regarding market trends and adjust our product mix accordingly.

AWARDS AND RECOGNITIONS

The following table sets forth our recent awards and recognitions:

<u>Year</u>	<u>Awards and Recognitions</u>	<u>Awarding issuing authority</u>
2014	“Top 10 of the Pharmaceutical Chain Enterprises in China of Year 2014” (2014年度中國醫藥連鎖藥店十強企業)	Pharmaceutical Chamber of Commerce of All-China Federation of Industry and Commerce (中華全國工商業聯合會醫藥業商會)
2014	“Top 100 Most Influential Enterprises of Pharmaceutical Industry in China of Year 2013” (2013 中國醫藥行業最具影響力榜單百強企業)	Pharmaceutical Chamber of Commerce of All-China Federation of Industry and Commerce (全國工商聯醫藥業商會)
2013	“AA Trustworthy Enterprise in Chengdu of Year 2012” (2012年度成都市AA級守合同重信用企業)	Chengdu Administration for Industry & Commerce (成都市工商行政管理局)
2012	“Top 12 of Retail Chain Stores in Pharmacy Supply Industry in China in terms of Turnover of Year 2011” (2011年度中國藥品流通行業零售連鎖企業銷售收入排序第12名)	China Association of Pharmaceutical Commerce (中國醫藥協會), Retail Pharmacy Chain Branch of China Association of Pharmaceutical Commerce (中國醫藥商業協會連鎖藥店分會)
2011	“Top 13 of the Top 100 Retail Pharmacy Chain Enterprises in China of Year 2010” (2010年度中國藥品零售連鎖百強企業第13名)	China Association of Pharmaceutical Commerce (中國醫藥協會), Retail Pharmacy Chain Branch of China Association of Pharmaceutical Commerce (中國醫藥商業協會連鎖藥店分會)

BUSINESS

<u>Year</u>	<u>Awards and Recognitions</u>	<u>Awarding issuing authority</u>
2010	“Top 16 of the Top 100 Retail Pharmacy Industry Enterprises of Year 2009” (2009年度中國藥品零售行業百強企業第16名)	Retail Pharmacy Chain Branch of China Association of Pharmaceutical Commerce (中國醫藥商業協會連鎖分會)
2010	Member of Pharmaceutical Chamber of Commerce of All-China Federation of Industry and Commerce (中華全國工商聯合會醫藥業商會)	Pharmaceutical Chamber of Commerce of All-China Federation of Industry and Commerce (中華全國工商聯合會醫藥業商會)

RISK MANAGEMENT MEASURES

We have adopted written risk management policies and guidelines to manage our operational risks prior to the Listing. Under our risk management policies, our key risk management objectives include:

- Controlling the risks to conform with our business goals and our risk tolerance level
- Ensuring the authenticity and reliability of our business information
- Ensuring our compliance with relevant laws and regulations
- Improving our operational efficiency and performance
- Developing risk management measures against key risks to protect our Company from material losses

Under our risk management policies, our chief financial officer and internal control department are responsible for establishing the key risk management principles and objectives, which are subject to approval by our Board.

BUSINESS

Our Board meets periodically to assess the risks we face and formulate measures to manage the risks. The following table sets out some of the primary risks relating to our business and our existing risk management measure:

Risk Identified	Our Risk Management Measures and Procedures
Failure to adequately contribute to social insurance fund and housing fund	<ul style="list-style-type: none">• We will enhance the execution of our human resources policy by requiring our human resources department, headed by Ms. Zhao Qing, to establish a register to keep track of the contribution schedule of social insurance and housing fund. Ms. Zhao Qing joined our Chengdu Kexun as the human resource and administration manager in 2011. Prior to joining our Group, Ms. Zhao Qing has worked in another company as a human resources deputy-manger for about one year. Ms. Zhao Qing graduated from Jiangsu City Occupation College* (江蘇城市職業學院) in 2010, majoring in secretary and business administration and graduated from Nanjing Normal College* (南京師範學院) in 2014 (self-study undergraduate course), majoring in law. Ms. Zhao Qing has obtained Level III human resource specialist* (三級企業人力資源管理師) in January 2014 issued by Occupational Skill Testing Authority* (職業技能鑒定(指導)中心).• Prior to the Listing, we have arranged our PRC legal advisors, Shu Jin Law Firm, to provide legal training to our executive Directors and relevant senior management for relevant PRC laws and regulations.• We will consult Mr. Min Feng, an independent non-executive Director of our Company, for advise on our contribution to social insurance and housing fund and invite him to provide training to our senior management and employees on the relevant PRC laws and regulations.

There are various other risks relating to our business and industry. For further details, please refer to the section headed “Risk Factors” in this prospectus.

Anti-fraud, Anti-corruption and Anti-bribery Policies

As part of our risk management and internal control measures, we established the Anti-fraud, Anti-corruption, and Anti-bribery Policies of Pa Shun Pharmaceutical International Holdings Limited (百信藥業國際控股有限公司反舞弊反腐敗及反商業賄賂制度) in July 2014, which were further enhanced in October 2014. These policies apply across our Group, including our subsidiaries, and set out the following:

- The corporate governance committee is responsible for the formulation and execution of anti-fraud, anti-corruption and anti-bribery policies and measures and reports to the audit committee.
- We conduct assessment of risks of fraud, corruption and bribery each year. The corporate governance committee performs annual assessment of the anti-fraud, anti-corruption and anti-bribery measures and the channels for handling complaints and investigations, and submits the assessment results to the audit committee and the Board for review. The assessment will be disclosed in our annual and/or interim reports after the Listing.
- We conduct background investigations, including educational background, work experience, criminal records, of any person to be employed or promoted for key positions as well as our distributors, suppliers and other intermediaries. For purposes of the foregoing sentence, we consider the following as “key positions”: (i) directors and senior management members of any Group company; (ii) any position involving contact with government agencies, negotiations with customers, procurement, construction, product sales, and equipment purchase and maintenance; (iii) finance personnel at all levels; and (iv) personnel serving as our primary contacts for suppliers, customers, franchise retail pharmacy stores, distributors, hospitals and other medical institutions in rural areas, service providers, contractors and other intermediaries and third parties. We conduct background investigations of business partners in accordance with relevant regulatory requirements, including obtaining and examining all necessary qualifications such as organization information, business registration licenses and operational licenses. All evaluation forms and investigation results are recorded in writing and kept in our files. We specify in our agreements with parties who have business relationships with us that the contracting parties shall comply with our anti-fraud, anti-corruption and anti-bribery policies.
- We circulate the anti-fraud, anti-corruption and anti-bribery policies and provide anti-corruption compliance training to our employees at least once a year. We emphasize the importance of code of ethics and the compliance with the Group’s internal policies in our staff handbooks. Our employees in key positions are required to sign a declaration confirming that they will comply with the anti-fraud, anti corruption and anti-bribery policies.
- We set up a system for handling complaints and investigations. We accept both named and anonymous complaints through our telephone hotline and email hotline, which will be duly recorded. For complaints against members of senior management, a special investigation team will be formed subject to approval by the Board and the audit committee, consisting of members from the corporate governance committee and the management of relevant business department, and external investigators will be hired if necessary.

BUSINESS

- If fraudulent, corrupt or bribery activities take place within our Group, written reports of assessment and rectification measures will be circulated internally and to external parties if necessary.

To further enhance our anti-bribery and anti-kickback measures, we introduced the Advances and Guarantee Policies of Pa Shun Pharmaceutical International Holdings Limited (百信藥業國際控股有限公司墊款及擔保管理制度及流程) in July 2014, which were further enhanced in October 2014. These policies apply across our Group, including our subsidiaries, and set out the following:

- We centralize our management of guarantees. Our subsidiaries are required to apply to the Board for approval before they provide guarantee internally. Guarantees for external parties are strictly prohibited.

Advances

- We are subject to certain restrictions in making advances to employees and are prohibited from providing advances to external parties. Our subsidiaries are prohibited from making advances to one another.
- Our finance department is responsible for assessing advances to employees and compiling related reports. The chief financial officer and chief executive officer of each of our subsidiaries are responsible for review and approval of the advances to employees, and the chief financial officer of our Group monitors all advances within the Group. If the directors or senior management of our subsidiaries apply for advances, the applications shall be reviewed and approved by the Board. Our legal department is responsible for the preparation of relevant documentation for such advances to employees and ensuring that such advances are in compliance with all relevant PRC laws and regulations. Our finance department, chief financial and executive officers of our subsidiaries and the chief financial officer of our Group are authorized to reject all applications for advances to external parties or among subsidiaries.

Internal Guarantee

- Our subsidiaries shall submit application to the finance department when they intend to provide guarantee to each other based on business needs. The applications are subject to review and approval by the chief financial officer and chief executive officer of each of our subsidiaries and final approval by the Board.
- Generally, our finance department, chief financial and executive officers of our subsidiaries and the chief financial officer of our Group assess the financial impact and risk and ensure that (i) the guarantee is in line with our business strategies and will not have adverse impact on our business operations; and (ii) is in compliance with relevant laws and regulations. Our legal department and the chief financial officer of our Group are responsible for the preparation of relevant documentation for the guarantee.

BUSINESS

External Guarantee

- Our finance department, chief financial and executive officers of our subsidiaries and the chief financial officer of our Group are authorized to reject all applications for external guarantees.

CORPORATE GOVERNANCE

We intend to establish a corporate governance committee prior to the Listing. The corporate governance committee will be responsible for, among other things:

- developing and reviewing our policies and practices on corporate governance and making recommendations to our board;
- reviewing and monitoring the training and continuous professional development of our Directors and senior management;
- reviewing and monitoring our policies and practices on compliance with legal and regulatory requirements;
- ensuring that we maintain sound and effective internal controls, including financial, operational and risk management functions, to safeguard shareholders' investment and our assets.

For further details of our corporate governance, please see "Directors and Senior Management — Board Committees — Corporate Governance Committee" in this prospectus.

EMPLOYEES

As of the Latest Practicable Date, we had 444 full-time employees. The following table shows a breakdown of our employees by function as of the Latest Practicable Date:

Function	Number of Employees
Management	40
Pharmaceutical Distribution	92
Retail Pharmacy	65
Procurement	11
Pharmaceutical Manufacturing	45
Quality Control	75
Finance and accounting	22
Warehouse Management	56
Human Resources and administration	25
Other	13
Total	444

BUSINESS

Remuneration

In accordance with the PRC labor law, each of the PRC subsidiaries of our Group has entered into written employment contracts with the respective employees. We have established a performance-based remuneration system to incentivize our employees and align their personal interests with our Company's as a whole. We give priority to our current employees who perform well when we consider candidates for vacancies and promotion. We believe that a performance-based practice among our employees provides strong incentives to both the management and employees to maximize shareholder returns.

We consider our relationship with our employees to be good. We have not experienced any strikes, work stoppages or significant labor disputes in the past and have not experienced any significant difficulties in recruiting or retaining staff.

Training

Our management team lays great emphasis on the personal development and success of our employees. Each new employee is provided with adequate training programs and on-the-job supervision from senior employees to facilitate the acquisition of necessary skills. In addition, we provide a number of internal and external training programs to our employees with a view to developing their professional skills and expertise in the pharmaceutical industry.

COMPETITION

The pharmaceutical distribution, retail pharmacy and manufacturing of pharmaceutical products industries are highly competitive. We compete with domestic and foreign competitors, which vary widely by region and size of operations.

Pharmaceutical Distribution

We face competition in the distribution of pharmaceutical and healthcare products. According to NFS, the pharmaceutical distribution market in the PRC is highly fragmented. In 2012, the eight largest distributors in China accounted for approximately 39.8% of the PRC market in terms of total pharmaceutical distribution turnover, according to NFS.

We are an established distributor of pharmaceutical and healthcare products in southwestern China Chengdu. According to NFS, we are ranked sixth among all Chengdu-based companies in the pharmaceutical distribution industry as measured by turnover for 2012. We face competition primarily from large national and regional distributors who operate in the Chengdu region including, in particular, Sichuan Kelun Pharmaceutical Co., Ltd. (四川科倫醫藥貿易有限公司), Sichuan Medicine Group Co., Ltd. (四川省醫藥集團有限責任公司), Chengdu Rongjin Pharmaceutical Trading Co., Ltd. (成都市蓉錦醫藥貿易有限公司), Sichuan Bencaotang Pharmaceutical Co., Ltd. (四川本草堂藥業有限公司) and Sichuan Beierkang Medicine Group Co., Ltd. (四川貝爾康醫藥有限公司) according to NFS. We compete with our competitors on the basis of depth of distribution network, type of customer served, breadth of product portfolio, service and delivery, logistics and value-added service programs, geographic coverage, credit terms, customer support and pricing. We distinguish ourselves from our competitors by the extensive distribution network with hospital customers in the rural area and franchise retail pharmacy store customers. Through working closely with local government authorities, we have substantially increased the market share in the Chengdu region, Sichuan province and southwestern China. We seek to

BUSINESS

leverage on our success in the region and expand our pharmaceutical distribution network by acquisition of existing distributors of pharmaceutical products particularly in southwestern and northwestern China, and Hebei province. When entering into these new markets, we will face fierce competition from existing competitors as they tend to have successful business model in these regions.

Regardless of the degree or type of competition, we intend to continue to explore new customer relationships and business opportunities and further serve our existing customers by providing a broad product portfolio, maintaining efficient inventory controls, offering diversified and reliable services and providing competitive pricing to remain competitive.

Self-operated Retail Pharmacies

According to NFS, there were more than 420,000 retail pharmaceutical stores in China as of December 31, 2012. In each of the segments we operate, we compete with certain regional and local retail pharmaceutical chain stores as well as independent pharmacies.

We compete principally on the basis of store location and convenience, merchandise selection and offering, customer services and satisfaction, including offering customers the ability to pay by medical insurance card, private-label product offerings, prices, and our brand name. We believe that the continuing consolidation of the retail pharmacy market and the growing number of new stores opened by chain store operators will further enhance competition in this market. Although the geographical coverage of our retail pharmacies enables us to offset the impact of competitive conditions in each individual markets, we believe that competition may intensify in some cities such as Wuhan and Shijiazhuang. Local regulations in these cities may prohibit the opening of new retail pharmacy chain stores within certain distances of an existing store. Where competitors have occupied many prime locations, we expect to face additional competition in terms of finding suitable new store locations when we expand in these cities.

Pharmaceutical Manufacturing

We compete with several manufacturers and distributors that produce or sell, as applicable, the same type of pharmaceutical products that we produce or sell. According to NFS, for the principal product in our pharmaceutical manufacturing business, our Zhenghonghua embrocation, we primarily compete with Liangjiefu (Guangdong) Pharmaceutical Co., Ltd. (梁介福(廣東)藥業有限公司), which manufactures “Fu Biao” Zhenghonghua embrocation, and with Wanyuan (Fuzhou) Pharmaceutical Industrial Co., Ltd. (萬源(福州)藥業有限公司), which manufactures “Yonglong” Zhenghonghua embrocation.

OCCUPATIONAL HEALTH AND SAFETY

We are subject to PRC safety laws and regulations which set out legal standards for health and safety measures which our operation team must comply with. We are required to conduct assessments on the safety of our production lines and operation facilities, formulate production safety and accident prevention plans and obtain approval from the work safety authorities for such assessments before the commencement of construction of our production lines and operation facilities. After the completion of the construction of our operation facilities, we are required to pass the inspections administered by the work safety authorities. We are also required to provide our employees with work safety education and training, as well as work safety articles that meet the local and national standards. In addition, we educate and supervise our employees to make sure that they strictly and effectively follow our work safety rules

BUSINESS

and procedures. As advised by Shu Jin Law Firm, our PRC legal advisors, we have complied with all relevant local and national work safety laws and regulations in all material respects based on the confirmation issued by the relevant PRC authorities.

Since the establishment of our Group, we have adopted and implemented a series of occupational health and safety procedures and measures for our business operations. We have formulated guidelines on occupational safety, such as production safety measures and procedures for handling certain emergency situations, to all employees. We hold work safety meetings from time to time at various levels of our management system to exchange information with respect to recent experience and measures among our different operational divisions, review issues discovered in the implementation of our work safety policies and improve our overall work safety and accident prevention records.

We hold regular work safety training sessions for our employees to increase safety awareness, and conduct routine occupational health examinations for our employees.

As confirmed by our Directors, during the Track Record Period no material work safety incident has occurred, and no claim was made against us on the ground of violation of work safety laws and regulations.

PROPERTIES

Owned Properties

Land Use Rights

As of the Latest Practicable Date, we held the state-owned land use right certificate to occupy one parcel of land located in Jinniu District, Chengdu Province, with a total area of approximately 6,419.17 sq.m..

Buildings

As of the Latest Practicable Date, we held one building ownership certificate for buildings located in Jinniu District, Chengdu with an aggregate floor area of approximately 3,176 sq.m. As of the Latest Practicable Date, the aforesaid buildings have been demolished. The certificate evidencing these buildings has been returned to the governing authority for cancellation.

Properties with defective titles in the PRC

Defects:

As of the Latest Practicable Date, we are in the process of acquiring one state-owned land use right certificate for one parcel of land located in Wenjiang District, Chengdu Province, with total areas of approximately 33,600.17 sq.m. (“New Wenjiang Land”), mainly for our production workshop (approximately 999.4 sq.m.), dormitory (approximately 1,040 sq.m.), Chengdu Keyi (approximately 2,829 sq.m.), storage and others.

BUSINESS

Since we have not yet obtained the relevant land use right certificate, as of the Latest Practicable Date, we also have not obtained the building ownership certificates for ten buildings located on such land with an aggregate floor area of approximately 11,637 sq.m. These buildings are mainly used for production workshop, office and dormitory.

We started to operate in the production facilities on the New Wenjiang Land in around January 2011, after our GMP certification is available. According to our Directors, the parcel of land and buildings for which we do not have land use right certificate and building ownership certificates are mainly used as production base, representing 100.0% of our total annual production capacity during the Track Record Period and generating approximately 51.6%, 43.8% and 45.3% of our gross profits for the year ended December 31, 2012, 2013 and 2014, and therefore crucial to our operation.

Reasons for the defects:

Chengdu Pashun originally legally occupied another parcel of land with a total area of approximately 21,313.3 sq.m. located in Jinma Town, Wenjiang District, Chengdu Province (“Old Wenjiang Land”) and the buildings of aggregate floor area of approximately 4,590.6 sq.m. on that parcel of land for our manufacturing use. Due to changes to the re-planning and construction of Chengdu Haixia Liang’an Science and Industrial Development Park* (成都海峽兩岸科技產業開發園) (“Park”), we were required by the Chengdu Haixia Liang’an Science and Industrial Development Committee* (成都海峽兩岸科技產業開發管委會) (“Committee”) to relocate from the Old Wenjiang Land within 20 months after the New Wenjiang Land is available to us to facilitate such re-planning and construction. As we focused on the relocation and the construction of the manufacturing facilities on the New Wenjiang Land to cater for our manufacturing use at that time, we did not apply for the state-owned land use right certificate of the New Wenjiang Land before occupying the same as we believed that the Committee would be solely responsible for obtaining the state-owned land use right certificate for us and did not follow up closely on this. Chengdu Pashun, the Committee and Chengdu Haike Investment Co., Ltd.* (成都海科投資有限責任公司) (“Haike”) entered into a land use right and buildings substitution agreement* (國有土地使用權及地上附著物置換補償協議) on March 10, 2008, pursuant to which Chengdu Pashun agreed to provide its owned land use right and buildings to the Committee and Haike, and in return, the Committee agreed to provide another parcel of land, i.e., the New Wenjiang Land, to Chengdu Pashun for manufacturing together with a cash compensation amounting to RMB30 million (as of the Latest Practicable Date, among the cash compensation of RMB30 million, the Committee has paid RMB23 million and it is expected that the remaining RMB7 million will be settled by the end of 2016). On the same date, the Committee and Chengdu Pashun entered into a project investment agreement, pursuant to which Chengdu Pashun agreed to invest and construct new production facilities in the Park for research and development, manufacturing and sales of pharmaceutical products. The planning layout of Chengdu Pashun’s new buildings on the New Wenjiang Land have been approved by the Committee in February 2009 and Phase I of the investment project was approved by Chengdu Wenjiang Development and Reform Bureau* (成都市溫江區發展和改革局文件) in May 2009.

We submitted all required application document for the state-owned land use right certificate with the Committee in December 2013 after realizing that application for state-owned land use right certificate for the New Wenjiang Land has not been taken care of by the Committee. Based on verbal communications between Chengdu Pashun and the Committee, the state-owned land use right certificate together with the building ownership certificates are not yet available to Chengdu Pashun due to governmental authorities’ approval procedure. It is expected that we will obtain the state-owned land use right certificate of the New Wenjiang Land by 2016 and the building ownership certificates of the buildings on such land by 2017.

BUSINESS

Although we have not yet obtained the state-owned land use right of the New Wenjiang Land and the building ownership certificates for the buildings thereon, our workshops are still in safe and good operating conditions, which can be evidenced by our GMP certification.

As we obtain the land use right of the New Wenjiang Land through substitution arrangement (as the settlement for the required relocation) with the Committee and we do not need to pay any extra costs, there would be no difference in land costs we have to pay even if the properties did not have defective titles.

Consequences:

According to a confirmation issued by the Committee dated May 7, 2014, Chengdu Pashun is entitled to occupy and use the New Wenjiang Land.

According to a written confirmation issued by the Committee (“Confirmation”) addressed to the Company dated June 20, 2014, (1) Chengdu Pashun does not need to pay any land premium for the New Wenjiang Land and Chengdu Pashun is not subject to any liabilities as a result of defects in property titles on the New Wenjiang Land, (2) the land planning of the New Wenjiang Land occupied by Chengdu Pashun is legal, (3) the buildings on the New Wenjiang Land for manufacturing purpose are legal, (4) there will be no obstacles for Chengdu Pashun to obtain the land use right and the building ownership certificates, and (5) in case we are required to relocate, the Committee will compensate us for any losses incurred and we are entitled to use the New Wenjiang Land until our relocation is completed. Further, the Committee issued a written confirmation dated April 29, 2015 to Chengdu Pashun, further confirming that if Chengdu Pashun is penalized by any governmental authorities for the defects on the New Wenjiang Land, the Committee will compensate Chengdu Pashun for any direct and indirect losses.

In addition, we obtained the written confirmations issued by each of Chengdu Wenjiang Bureau of Land Use Right* (成都市溫江區國土資源局), Chengdu Wenjiang Bureau of Land Planning* (成都市溫江區規劃管理局), and Chengdu Wenjiang Bureau of Housing* (成都市溫江區房產管理局) (for the purpose of this paragraph, the “Relevant Authorities”) in September 2014 and October 2014, respectively, all of which were issued to Chengdu Pashun, indicating that (1) the relevant procedures for granting the state-owned land use right certificate of the New Wenjiang Land and relevant building ownership certificates of our manufacturing plants are in progress, (2) there are no obstacles for Chengdu Pashun to obtain the state-owned land use right certificates for the New Wenjiang Land and relevant building ownership certificates, and (3) it is expected that Chengdu Pashun can obtain the state-owned land use right certificate for the New Wenjiang Land by 2016. Further, our PRC advisors, Shu Jin Law Firm, under the name of Chengdu Pashun, verbally consulted each of Chengdu City Bureau of Land Use Right* (成都市國土資源局) (the head of land registration department (地籍管理處)), Chengdu City Bureau of Housing* (成都市城鄉房產管理局) (the head of property management department (產權管理處)), Chengdu City Bureau of planning* (成都市規劃管理局) (the head of legal department (政策法規處)) and Chengdu City Wenjiang District People’s Government* (成都市溫江區人民政府) (the section chief of legal department (法制辦)) in November 2014 and was informed that the Relevant Authorities are competent to confirm the state-owned land use right and building ownership in relation to the New Wenjiang Land. Our PRC advisors, Shu Jin Law Firm advised that each of the above-mentioned interviewees is competent to give such view.

BUSINESS

In April 2015, we received written confirmations from the Land and Resources Department of Sichuan Province* (四川省國土資源廳) and the Housing and Construction Department of Sichuan Province* (四川省住房和城鄉建設廳), all of which were issued to Chengdu Pashun, indicating that: (1) Chengdu Wenjiang Bureau of Land Use Right* (成都市溫江區國土資源局), Chengdu Wenjiang Bureau of Land Planning* (成都市溫江區規劃管理局) and Chengdu Wenjiang Bureau of Housing* (成都市溫江區房產管理局) are competent to confirm the state-owned land use right, construction planning and housing ownership in relation to the New Wenjiang Land, respectively, (2) there are no obstacles for Chengdu Pashun to obtain the state-owned land use right certificate, construction planning permit (建設工程規劃許可證), construction permit (建築工程施工許可證) and relevant building ownership certificates in relation to the New Wenjiang Land. Before obtaining relevant permits and certificates, Chengdu Pashun is entitled to occupy and use the New Wenjiang Land and buildings on such land, (3) they and their affiliates will not punish Chengdu Pashun or its management personnel for the substitution arrangement, ownership, occupation and use of the New Wenjiang Land, and the planning, construction and use of the buildings on such land, (4) they and their affiliates will not require Chengdu Pashun to relocate from the New Wenjiang Land. In addition, the Land and Resources Department of Sichuan Province* (四川省國土資源廳) further confirms that there is currently no expropriation or requisition plan in relation to the New Wenjiang Land. Our PRC Advisors, Shu Jin Law Firm advised that both the Land and Resources Department of Sichuan Province* (四川省國土資源廳) and the Housing and Construction Department of Sichuan Province* (四川省住房和城鄉建設廳) are competent to give the aforementioned confirmations.

According to our PRC advisors, Shu Jin Law Firm, (1) the Committee is a branch office of Wenjiang District Government* (溫江區人民政府) governing the Park and each of Chengdu Wenjiang Bureau of Land Use Right* (成都市溫江區國土資源局), Chengdu Wenjiang Bureau of Land Planning* (成都市溫江區規劃管理局), and Chengdu Wenjiang Bureau of Housing* (成都市溫江區房產管理局) is the competent authority governing the state-owned land use right and housing ownership of the New Wenjiang Land, (2) in accordance with the relevant laws and regulations, the maximum potential liability that Chengdu Pashun may be subject to include (a) relocation from the New Wenjiang Land and (b) a penalty amounting to 1% to 2% of the total sum of construction contracts to be imposed by Chengdu Wenjiang Bureau of Construction* (成都市溫江區建設局) and 5% to 10% of the construction costs in association with the buildings located on the New Wenjiang Land to be imposed by Chengdu Wenjiang Bureau of Land Planning* (成都市溫江區規劃管理局). Based on the total sum of the construction contracts of approximately RMB37.6 million and construction costs in association of the buildings located on the New Wenjiang Land of approximately RMB33.8 million, Chengdu Pashun might be subject to a maximum penalty of approximately RMB4.1 million. However, in light of the above-mentioned agreement and the confirmations, the possibility Chengdu Pashun being imposed any penalty by Chengdu Wenjiang Bureau of Land Planning* (成都市溫江區規劃管理局) and Chengdu Wenjiang Bureau of Construction* (成都市溫江區建設局) for the construction on the New Wenjiang Land without obtaining the construction planning permit (建設工程規劃許可證) and the construction permit (建築工程施工許可證) is remote, (3) Chengdu Pashun is entitled to use the above-mentioned parcel of land and buildings located on such land for its manufacturing purpose, (4) since the state-owned land use right certificate of the New Wenjiang Land and building ownership certificates of the buildings thereon are not yet available, the state-owned land use right and buildings cannot be sold, bought and accepted by banks as security for mortgages, and (5) there will be no legal impediments for Chengdu Pashun to obtain the state-owned land use right certificate and building ownership certificates for these properties when Chengdu Pashun meets the requirements under the relevant laws, regulations and of the relevant authorities.

BUSINESS

Based on our continuous communications with the Committee and the legal advice provided by our PRC advisors, Shu Jin Law Firm, our Directors believe that (1) the fact that the state-owned land use right of the New Wenjiang Land and buildings thereon cannot be sold, bought and accepted by banks as security for mortgages will not materially affect us since these properties mainly serve our own manufacturing purpose and we currently do not intend to sell or mortgage these properties, (2) based on points 1-4 in the Confirmation, there is minimum risk that we will be required to relocate from the properties with defects, and (3) based on point 5 in the Confirmation, the contingency arrangements for our production operations as set out below, and that in addition to our self-manufactured products, we also sourced pharmaceutical and healthcare products and medical devices from pharmaceutical manufacturers, even if we are required to relocate, our operation will not be materially suspended and we will not suffer material losses.

Contingency arrangements for our production operations at the New Wenjiang Land:

Although we consider that the possibility of being forced to relocate from the New Wenjiang Land is remote, we have formulated a contingency plan as below:

1. Relocation

In the event that we are forced to relocate from the New Wenjiang Land, we would immediately seek the alternative location for our manufacturing plants, which we do not think there would be any obstacles to the best of our knowledge.

We expect that the whole relocation process can be completed within twelve months based on our past relocation experience from the Old Wenjiang Land to the New Wenjiang Land. We estimate the costs to relocate the current manufacturing plants on the New Wenjiang Land to be approximately RMB50 million, including, amongst others, the logistic expenses, land premium for the alternative location, with reference to the prevailing open market value of other premises with conditions comparable to the New Wenjiang Land and capital expenditure for refurbishing the alternative manufacturing plants. According to the Confirmation, such costs would be covered by the Committee. After the relocation is completed, it will take approximate three months for us to get the renewed GMP license before our alternative manufacturing plants can be officially put into operation.

2. Subcontracting

In the event that we are forced to relocate from the New Wenjiang Land and during the period when our manufacturing is suspended pending completion of our relocation process and grant of the renewed GMP license, we would immediately seek to subcontract our manufacturing to the subcontractors which have the GMP licenses, which is not unusual in the pharmaceutical industry, to mitigate the impact to our manufacturing businesses. Although we do not have any prior subcontracting experience, we believe there is no obstacle for us to engage subcontracting suppliers in the market since there is no unique or extraordinary expertise or technologies required for the manufacturing process of our self-manufactured products. We sourced potential subcontracting suppliers and contacted several subcontracting manufacturers, reviewed their manufacturing equipment, manufacturing scale, pharmaceutical products, business licenses and GMP licenses. On November 3, 2014, we entered into a letter of intent (the “Letter of Intent”) with an Independent Third Party which is engaged in pharmaceutical manufacturing and which owns proper GMP

BUSINESS

licenses and processes manufacturing scale satisfactory to us. Pursuant to the Letter of Intent, such Independent Third Party agreed that during a term of three years from November 3, 2014, upon our giving of reasonable advance notice, such Independent Third Party will process subcontracting orders for us. Under the Letter of Intent, such Independent Third Party is responsible for manufacturing and we are responsible for supplying raw materials, accessories, packages, and sales of products. Our Directors consider that our core competency in our operation primarily comes from the established distributors of pharmaceutical and healthcare products based in southwestern China and our well-recognized “Pa Shun” brand. In the event that our manufacturing is subcontracted, we would conduct quality control to ensure that the products produced by the subcontractors can meet our quality standard of our customers.

Although the subcontracting of our manufacturing would lead to additional subcontracting fees, we would also save on certain production overhead, such as water and electricity, and maintenance expenses. Under the Letter of Intent, parties agreed that the subcontracting fees would be determined on arm’s length negotiation with reference to our current costs involved in certain products, being labor costs plus manufacturing expenses, with a floating rate of 10%. In addition, in order to maintain our experienced manufacturing employees for our Group’s future development, during subcontracting, we would keep them with the basic salary and social welfare (together with the subcontracting fees, the “Subcontracting Costs”) according to relevant laws and regulations. For illustration purposes only, if we subcontract our self-manufactured products to such Independent Third Party under the Letter of Intent for the whole year of 2015, it would take us a maximum total Subcontracting Costs of approximately RMB2.8 million. If incurred, the Subcontracting Costs would be covered by the Committee according to our land use right and buildings substitution agreement with them. Further, the Committee confirmed such arrangement in its confirmation issued in November 2014. Based on the foregoing, we believe that the subcontracting arrangement will not materially affect our business and financials.

Given the above, despite the fact that the relevant properties represent 100% of our production capacity, our Directors consider that the overall operation and financial position of our Group would not be materially and adversely affected by such relocation.

3. Indemnification by our Controlling Shareholders

Although we obtained the confirmations from the Committee that it will compensate us for any losses and expenses resulting from the relocation or penalty imposed on us by any governmental authorities due to defects on the New Wenjiang Land, Mr. Chen, our Controlling Shareholder, has undertaken to fully indemnify our Group against any claims (civil, criminal, administrative or otherwise) made against any member of our Group at any time arising from any matter, event or circumstance that occurred prior to the Listing Date, and any penalties or fines, damages, losses or liabilities which are or become payable or incurred by any members of our Group as a direct or indirect result of any potential claims or penalties arising from non-compliance in relation to the defects on properties since the incorporation of our Group.

Internal control measures in relation to the defects

In order to prevent re-occurrence of similar defects after the Listing, our Company has gradually adopted and implemented the following internal control measures starting from June 2014:

- We will continue to maintain active and regular communication with the relevant government authorities regarding the progress of their approval procedures.

BUSINESS

- We will seek legal advice on the approvals, licenses and legal procedures involved each time when there is any change to our real estates.
- We will seek professional legal advice to examine the status of the state-owned land use right certificates and building ownership certificates of all our real estates at least once a year.
- Since December 2014, Mr. Shen Shun, one of our executive Directors, has been assigned to supervise the status of the state-owned land use right certificate and building ownership certificates in relation to the New Wenjiang Land and the process of acquisition and/or leasing of properties to ensure central oversight at the highest level and report to the Board on a regular basis.

Our Directors consider that Mr. Shen Shun has the necessary experience to monitor the rectification of the defects on the New Wenjiang Land taking into accounts the fact that: (a) Mr. Shen has joined our Group for approximately 15 years and has been responsible for sales and internal control matters. One of Mr. Shen's day-to-day responsibilities includes liaising with governmental officers. Mr. Shen has deep understanding and is familiar with our overall operation, including but not limited to finance, internal control, operation, development, structure and culture of our Group, (b) Mr. Shen has accumulated certain business management experience through his role in our Group, Mr. Shen participates in our regular internal meetings in connection with, among other matters, site selection and construction of new project(s), (c) Mr. Shen has been involved and has offered his advice and comment in the formulation and enhancement of the internal control manuals and policies of our Group, (d) Mr. Shen has attended training which covered, among other subjects, internal control and corporate governance, and (e) Mr. Shen is able to seek external legal advice from time to time to perform his duties, if necessary, at the costs of the Company.

- Further, since October 31, 2014, policies have been formulated aiming at refining and enhancing such internal control measures for acquisition and leasing of land and/or properties in the future. The internal control adviser engaged by our Company since the preparation of the Listing has reviewed the sufficiency of the internal control measures and the risk management practices adopted by our Group in connection with assessing, mitigating, and monitoring key risks, including risks related to acquisition and leasing of land use rights and/or properties and has given advice and recommendations to us, and we have enhanced our internal control accordingly. According to the enhanced internal control, going forward, for each acquisition and leasing of land use rights and/or properties, we will (a) set up a work plan and timetable; (b) closely monitor the progress and evaluate if the timetable and work plan can be achieved; (c) closely monitor the status of relevant title certificates; and (d) periodically report the evaluation result to our Board, at least once a year. This set of manual and policies has been fully formulated and adopted to ensure on-going compliance and to prevent reoccurrence of the non-compliance incidents.

Our Company will disclose the rectification progress in relation to the properties defects on the New Wenjiang Land and the status of application of the state-owned land use right certificate of the New Wenjiang Land and the building ownership certificates of our manufacturing workshops located on the New Wenjiang Land in our annual and interim reports after the Listing to update Shareholders and potential investors.

BUSINESS

Lease Arrangement

Lessee

As of the Latest Practicable Date, we leased 36 properties (excluding intra-group lease arrangement) with Independent Third Parties in the PRC, with an aggregate gross floor area of 31,799.28 sq.m. Our leased properties are primarily used for retail stores and storage facilities.

The following table sets forth the property interests rented and occupied by us as of the Latest Practicable Date.

<u>Usage</u>	<u>Brief description of properties</u>	<u>Gross floor area</u>	<u>Dates of expiry</u>
Self-operated direct retail pharmacy, storage and office	36 leased properties in the PRC	28,999.28 sq.m.	June 2015– December 2021
Healthcare and cosmeceutical product outlet ⁽¹⁾	1 leased property in the PRC	2,800 sq.m.	December 2021

Note:

- (1) We leased a building and subsequently sub-leased such property to other Independent Third Parties for the purpose of healthcare and cosmeceutical product outlets. Please see the paragraph headed “Business — Lease Arrangement — Lessor” for further details.

As of the Latest Practicable Date, none of our lease agreements had expired.

We believe that our existing properties are adequate for our current requirements and alternative properties can be obtained on commercially reasonable terms in case of non-renewal of the existing leases or if our business expands.

Defects

The leases underlying the above-mentioned leased properties have certain defects:

- (A) The lessors of 16 of these properties do not have the relevant building ownership certificates. In particular, 14 were used by us as self-operated retail pharmacies, one was used for the healthcare and cosmeceutical product outlet, office and storage facility, and the remaining one was used as office and storage facility. According to our PRC legal advisors, Shu Jin Law Firm, we will not be subject to any liabilities by reason of the absence of building ownership certificates of the lessors. However, if the lessors do not have lawful rights to these properties, we may not be able to continue to occupy and use such properties.

BUSINESS

Before we leased these 16 properties from the relevant lessors, we had conducted necessary enquiries with these lessors and had obtained their confirmation in respect of their titles to such properties. We had also requested confirmation from the competent authority the purchase agreements and payment vouchers in relation to such properties and conducted reviews where such documents were available. As of the Latest Practicable Date, we were not aware of any actions which had been brought to challenge the title to such properties. As such, our Directors believe that, although the lessors of these 16 properties are not able to provide us with their official title documents, we have taken necessary actions to support our belief that they have proper title to such properties.

We have requested the relevant lessors to apply for the building ownership certificates. However, since they are all Independent Third Parties and it depends on the competent governmental authority's internal procedures to grant the certificates, we are not in the position to guarantee whether and when the certificates can be issued. Our Directors believe that in the event that we are required to relocate, similar properties at similar locations can be easily identified and the relocation costs will not have a material adverse impact on our operation and financial performance.

- (B) After making reasonable enquiries, we are informed that three of the buildings we rented have been mortgaged to third parties. According to our PRC advisors, Shu Jin Law Firm, the validity of the lease agreements will not be affected. However, since mortgage prevails over lease arrangement, we might not be able to continue to lease the relevant properties if the relevant mortgagees enforce the mortgage. Since the landlords of the lease agreements are all Independent Third Parties, we are not in a position to control how they deal with their own properties.
- (C) None of the above-mentioned lease agreements have been registered with the relevant PRC authorities, which may result in correction orders by relevant authorities and may subject us to a fine of RMB1,000 to RMB10,000 per lease agreement on the relevant party which is an enterprise. As advised by our PRC legal advisors, Shu Jin Law Firm, the validity of the lease agreements that were not duly registered or filed with the relevant governmental authorities is not affected by such failure to register or file. In respect of the non-registered lease agreements, correction orders may be given by the relevant governmental authorities to register the lease agreements within a prescribed period, failing which a fine ranging from RMB1,000 to RMB10,000 per lease agreement may be imposed for each unregistered lease agreement. As of the Latest Practicable Date, we had not received any such correction orders.

We have requested the relevant lessors to register the lease agreements with the competent authorities. However, since they are all Independent Third Parties, therefore we are not in the position to control whether and when each of them would register the lease agreements.

Consequences of defects

Despite the defects, our Directors believe that the safety conditions of the properties will not be challenged, which can be evidenced by our GSP certification.

We entered into these lease agreements with Independent Third Parties based on arm's length negotiation and there is no difference in rental we would have to pay even if the lease agreements did not have defects.

BUSINESS

According to our Directors, the lease agreements underlying all of our self-operated retail pharmacy stores, collectively, generated approximately 1.1%, 2.1% and 3.4% of our total revenue for the three years ended December 31, 2012, 2013 and 2014, while the aggregate rental under our sublease of the property for the purpose of healthcare and cosmeceutical product outlets amounted to approximately RMB0.7 million, RMB1.2 million and RMB0.7 million for the three years ended December 31, 2012, 2013 and 2014, representing approximately 0.1%, 0.2% and 0.1% of our total revenue for the corresponding period. Our Directors believe that (i) our Group may continue to use the relevant properties; (ii) it is unlikely that our Group will be subject to any penalty or be subject to any eviction; (iii) we can find comparable properties to relocate the relevant pharmacy stores, if necessary; (iv) we do not anticipate any material practical difficulties in relocating the relevant pharmacy stores; and (v) it is unlikely that all lease arrangements are terminated and we need to relocate all those properties, based on the current available information, the estimated total costs and expenses for all relocation are not expected to exceed RMB3.4 million and we believe it would take approximately two months to relocate after alternative premises are secured. Therefore, our Directors are of the view that these properties with defects, individually or collectively, are not crucial to our operation.

Lessor

As of the Latest Practicable Date, for the purpose of our health products market, we leased 41 units (excluding intra-group lease arrangement) located in buildings legally occupied by us to commercial tenants who are all Independent Third Parties, with an aggregate gross floor area of 2,085 sq.m., for them to operate outlets for healthcare and cosmeceutical products. These lease agreements were newly entered into in June 2014, and we have already registered these lease agreements with competent authorities.

General Information

According to section 6(1) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 38(1) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, which require a valuation report with respect to all our Company's interests in land or buildings, since no single property interest that forms part of our property activities has a carrying amount of 1% or more of our total assets, and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

ENVIRONMENTAL MATTERS

Our pharmaceutical distribution and retail pharmacy operations are primarily governed by general environmental protection laws and related regulations. We are required to comply with relevant provisions governing environmental protection and appraising of environmental impact as well as national and provincial standards of environmental quality established by various government authorities. For example, with respect to the development projects of our manufacturing and logistics facilities, it is mandatory for us to carry out an environmental impact assessment and submit these assessment documents to relevant competent authorities for approval before the construction commences.

Our pharmaceutical manufacturing operations are governed by national, provincial and local environmental laws and regulations. The relevant laws and regulations applicable to pharmaceutical manufacturers in China include provisions governing air emissions, water discharge, prevention and treatment of sewage and exhaust fumes and the management and disposal of hazardous substances and

BUSINESS

waste. Manufacturers are also required to conduct an environmental impact assessment before engaging in new construction projects to ensure that the production processes meet the required environmental standards to treat wastes before the wastes are discharged. The primary wastes generated from our pharmaceutical manufacturing processes are air emissions, waste water, alcohol and organic waste, which are generated in compliance with all applicable environmental rules and regulations. PRC national and local environmental protection laws and regulations impose fees for the discharge of pollutants and, in cases where the pollutants have not been properly treated, fines for such discharge. The relevant environmental laws and regulations empower certain governmental authorities to shut down any enterprise that violates such laws and regulations through the discharge of pollutants.

During the Track Record Period, we carried out the relevant environmental impact assessments before commencing construction of our manufacturing facilities and have obtained all the required environmental permits and approvals for our manufacturing facilities in all material respects. To ensure compliance with relevant laws and regulations on pollution control, we have established wastewater treatment and waste management facilities at our pharmaceutical production site to meet the requirements of Discharge Standard of Water Pollutions for Pharmaceutical Industry (製藥工業水污染排放標準), which were effective on August 1, 2008. In addition, our production facilities comply with all relevant environmental and manufacturing standards required by the GMP certification system. We believe we are currently in compliance in all material respects with applicable national, provincial and municipal environmental laws and regulations and we have obtained all the relevant government approvals in relation to our operations. As of the Latest Practicable Date, we had not been the subject of any material environmental complaint or administrative penalties with respect to environmental violations. In this regard, our PRC legal advisors, Shu Jin Law Firm, have confirmed that we complied with all applicable environmental laws and regulations in all material respects during the Track Record Period.

Our compliance with existing environmental laws and regulations has not had a material adverse effect on our financial condition and results of operations, and our management does not believe it will have such an impact on the future. We are not aware of any pending litigation or significant financial obligations arising from our current or past environmental practices that are likely to have a material adverse effect on our financial position. However, we cannot predict the impact that unforeseeable environmental contingencies or new or amended laws or regulations may have on us or our production facilities. In this regard, as PRC environmental compliance requirements continue to evolve, we may be required to make significant expenditures in order to comply with environmental laws and regulations that may be adopted or imposed in the future. We are also not able to predict our annual cost of compliance with respect to the environmental laws and regulations that may be adopted or imposed in the future. For further information on the environmental laws and regulations governing our operations, see “Regulations — Regulation on Environmental Protection”.

Our plans to address potential environmental laws and regulations that may be adopted in the future comprise the following: (i) empowering our legal and industrial departments to oversee and maintain our compliance with environmental protection policies; (ii) providing annual training to our staff regarding compliance with PRC environmental laws and regulations, and more frequent training, as required upon adoption of new environmental laws and regulations, and encouraging our staff to attend also environmental protection training sessions organized by the local environmental protection authorities; (iii) conducting weekly on-site inspections of our facilities; (iv) immediately reporting to our general manager any violation of PRC environmental protection laws and regulations; and (v) immediately reporting to and coordinating with the applicable PRC regulatory authorities in the event of environmental violations.

BUSINESS

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we have registered 26 trademarks in the PRC and one trademark in Hong Kong. Chengdu Pashun Chain Store entered into trademark transfer agreements with Wuhan Baixin Holdings Group Limited* (武漢百信控股集團有限公司), pursuant to which Wuhan Baixin Holdings Group Limited* (武漢百信控股集團有限公司) agreed to transfer six trademarks to Chengdu Pashun Chain Store. These transfers are still under progress. It is expected that these transfers will be completed by the end of 2015. An Independent Third Party exclusively licensed the use of one trademark to Chengdu Pashun for a term starting from February 21, 2014 to February 20, 2019. We have also registered three domain names. For further details of the intellectual property rights of the Group, please refer to the section headed “Appendix IV — Statutory and General Information — Further Information about our Company’s Business — Intellectual Property Rights of our Group” in this prospectus.

Our Directors confirm that we had not experienced any dispute or infringement of our intellectual property during the Track Record Period which has had a material adverse effect on our business, results of operations, financial condition and prospects.

INSURANCE

We have procured insurance coverage including insurance for our vehicles and property comprehensive insurance for our inventories. We consider our current insurance coverage to be adequate. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice aligned with our needs and with industry practice in China.

LEGAL COMPLIANCE AND PROCEEDINGS

To our best knowledge, none of our Group, our Shareholders, Directors, employees, wholesalers, distributors, sub-distributors or other intermediaries, where appropriate, was involved in any bribery or kickback arrangements or incidents in relation to our Group’s business operations during the Track Record Period and up to the Latest Practicable Date.

Except as disclosed below, we complied with the law and regulations applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date. The table below sets forth summaries of certain incidents of historical non-compliance with applicable law and regulations during the Track Record Period. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have a material operational or financial impact on us.

(I) Non-compliance regarding the PRC employee social insurance contribution

Non-compliance incidents	Reason(s) for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Measures taken/to be taken to prevent any future breaches and ensure on-going compliance
<p>According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), and other relevant regulations, our PRC subsidiaries are required to provide our employees with welfare schemes covering social insurance.</p> <p>Each of our subsidiaries did not make adequate contribution to social insurance fund for our employees since establishment of our Group.</p> <p>The aggregate outstanding amount incurred and accrued since establishment of our Group as of December 31, 2014, was approximately RMB5.7 million.</p>	<p>We are unfamiliar with the social insurance regulations in the PRC and we did not engage a professional compliance adviser to oversee and monitor our compliance status with regard to social insurance contributions. Therefore, we paid the social insurance for our employees according to the lowest standard under the PRC laws and regulations.</p>	<p>Under the relevant PRC laws and regulations, for the unsubscribed social insurance contribution prior to July 1, 2011, being the effective date of the Social Insurance Law of the PRC, the relevant governmental authority may require a company who fails to pay its portion of social insurance fund contributions to make the outstanding contribution within a given period and, if the company fails to do so, may impose on the company an additional late payment fee at a daily rate of 0.2% of the outstanding amount. For the unsubscribed social insurance contribution after July 1, 2011, the relevant governmental authority may require the company to make the unsubscribed contribution with an additional late payment fee at a daily rate of 0.05% of the outstanding contribution from the due date within a given period and, if the company fails to do so, may impose a fine on the company ranging from one to three times of the total amount of the unsubscribed contribution.</p> <p>As of the Latest Practicable Date, we had not received any requirement from the relevant governmental authority requiring us to make the outstanding contribution within a given period.</p>	<p>We have made provisions of RMB5.7 million in total for the unpaid social insurance throughout the Track Record Period.</p> <p>Chengdu Administration Bureau of Social Insurance* (成都市社會保險事業管理局) issued confirmations to Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, all dated June 23, 2014, that they will not require us to pay the outstanding social insurance contributions or any additional late payment fee incurred since the establishment of our Group and require us to rectify such non-compliance prior to December 31, 2014. We have substantially rectified such non-compliance in relation to social insurance contribution since June 2014 and have rectified full in December 2014.</p> <p>Mr. Chen, our Controlling Shareholder, has undertaken to indemnify our Group against any claims (civil, criminal, administrative or otherwise) made against any member of our Group at any time arising from any matter, event or circumstance that occurred prior to the Listing Date, and any damages, losses or liabilities which are or become payable or incurred by any members of our Group as a direct or indirect result of any potential claims or penalties arising non-compliance in relation to unfully paid social insurance since the incorporation of our Group, except for the provision which has been made for such social insurance for the three years ended December 31, 2012, 2013 and 2014.</p>	<p>We will enhance our human resources policy requiring our human resources department, headed by Ms. Zhao Qing, to establish a register to keep track of the contribution schedules of social insurance. The register should include information such as a name list of employees eligible for social insurance schemes, expected contribution amount and contribution date. Our human resources department will examine the compliance of social insurance contribution on a monthly basis. Ms. Zhao Qing joined our Chengdu Kexun as the human resource and admin manager in 2011. Prior to joining our Group, Ms. Zhao Qing has worked in another company as a human resources deputy-manager for about one year. Mr. Zhao Qing graduated from Jiangsu City Occupation College* (江蘇城市職業學院) in 2010, majoring in secretary and business administration and graduated from Nanjing Normal College* (南京師範學院) in 2014 (self-study undergraduate course), majoring in law. Ms. Zhao Qing has obtained Level III human resource specialist* (三級企業人力資源管理師) in January 2014 issued by Occupational Skill Testing Authority* (職業技能鑑定(指導)中心).</p>
			<p>Our PRC legal advisors, Shu Jin Law Firm, have confirmed that (i) Chengdu Bureau of Social Insurance* (成都市社會保險事業管理局) is the competent authority of social insurance of Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store; (ii) the non-compliance relating to such contributions are not material to the Group as a whole; and (iii) the risk of being penalised for such historical non-compliance is low in practice.</p>	<p>Prior to the Listing, we have arranged our PRC legal advisors, Shu Jin Law Firm, to provide legal training to our executive Directors and relevant senior management for relevant PRC laws and regulations.</p> <p>We will consult Mr. Min Feng, an independent non-executive Director of our Company, for advice on our contribution to social insurance and housing provident funds and invite him to provide training to our senior management and employees on the relevant PRC laws and regulations. For his biography, please refer to the section headed "Directors and Senior Management".</p> <p>If necessary, we will consult with our PRC legal advisors for their advice</p>

(II) Non-compliance regarding the PRC employee housing fund contribution

Non-compliance incidents	Reason(s) for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Measures taken to be taken to prevent any future breaches and ensure on-going compliance
<p>According to the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例) and other relevant regulations, we are required to provide our employees with housing funds and housing benefits.</p>	<p>We are unfamiliar with the housing fund regulations in the PRC and we did not engage a professional compliance adviser to oversee and monitor our compliance status with regard to housing fund contributions. Therefore, we paid the housing fund for our employees according to the lowest standard under the PRC laws and regulations.</p>	<p>According to the relevant PRC laws and regulations, the relevant governmental authority may require us to make the unsubscribed contribution within a given period, and, if we fail to do so within the given period, may impose a fine ranging from RMB 0,000 to RMB 50,000 and may apply from a PRC court for an order to enforce the payment.</p>	<p>We have made provisions of RMB2.7 million in total for the underpaid housing fund throughout the Track Record Period.</p> <p>We have substantially rectified our non-compliance in relation to housing fund contribution since June 2014 and have rectified in full in December 2014.</p>	<p>We will enhance our human resources policy requiring our human resources department, headed by Ms. Zhao Qing, to establish a register to keep track of the contribution schedules of housing fund. The register should include information such as a name list of employees eligible for housing fund schemes, expected contribution amount and contribution date. Our human resources department will examine the compliance of housing fund contribution on a monthly basis. Ms. Zhao Qing joined our Chengdu Kexun as the human resource and admin manager in 2011. Prior to joining our Group, Ms. Zhao Qing has worked in another company as a human resources deputy-manager for about one year. Mr. Zhao Qing graduated from Jiangsu City Occupation College* (江蘇城市職業學院) in 2010, majoring in secretary and business administration and graduated from Nanjing Normal College* (南京師範學院) in 2014 (self-study undergraduate course), majoring in law. Ms. Zhao Qing has obtained Level III human resource specialist* (三級企業人力資源管理師) in January 2014 issued by Occupational Skill Testing Authority* (職業技能鑒定指導中心).</p>
<p>The aggregate outstanding amount incurred and accrued since establishment of our Group as of December 31, 2014 was approximately RMB6.5 million.</p>	<p>As of the Latest Practicable Date, we had not received any requirement from the relevant governmental authority requiring us to make the outstanding contribution within a given period.</p>	<p>Mr. Chen, our Controlling Shareholder, has undertaken to indemnify our Group against any claims (civil, criminal, administrative or otherwise) made against any member of our Group at any time arising from any matter, event or circumstance that occurred prior to the Listing Date, and any damages, losses or liabilities which are or become payable or incurred by any members of our Group as a direct or indirect result of any potential claims or penalties arising non-compliance in relation to unfully paid housing fund since the incorporation of our Group, except for the provision which has been made for such housing fund for the three years ended December 31, 2012, 2013 and 2014.</p>	<p>Prior to the Listing, we have arranged our PRC legal advisors, Shu Jin Law Firm, to provide legal training to our executive Directors and relevant senior management for relevant PRC laws and regulations.</p>	<p>Prior to the Listing, we have arranged our PRC legal advisors, Shu Jin Law Firm, to provide legal training to our executive Directors and relevant senior management for relevant PRC laws and regulations.</p>
<p>If necessary, we will consult with our PRC legal advisors for their advice</p>	<p>We will consult Mr. Min Feng, an independent non-executive Director of our Company, for advice on our contribution to housing fund and housing provident funds and invite him to provide training to our senior management and employees on the relevant PRC laws and regulations. For his biography, please refer to the section headed "Directors and Senior Management".</p>	<p>If necessary, we will consult with our PRC legal advisors for their advice</p>	<p>If necessary, we will consult with our PRC legal advisors for their advice</p>	<p>If necessary, we will consult with our PRC legal advisors for their advice</p>

BUSINESS

Our PRC law advisers, Shu Jin Law Firm, are of the view that the legal consequences arising out of these incidents of non-compliance in relation to PRC laws and regulations, whether individually or collectively, are not material to our Group as a whole.

Measures to prevent recurrence of non-compliance

In order to continuously improve our corporate governance and to prevent recurrence of non-compliance in the future, our Group intends to adopt or have adopted the following measures:

- (1) we have designated Mr. Pang, Peter Chun Ming (our chief financial officer and one of our joint company secretaries), who is experienced in compliance issues of listed company in Hong Kong, to assist our Board to ensure due compliance of laws, rules and regulations applicable to our Group in Hong Kong;
- (2) we will provide our Directors and senior management with training regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time;
- (3) we will appoint external Hong Kong and PRC legal counsels to advise us on compliance with the Listing Rules and the applicable laws and regulations in Hong Kong and the PRC, respectively; and
- (4) we will establish a corporate governance committee to oversee our corporate governance and legal compliance prior to the Listing.

Views of our Directors and the Sole Sponsor

We have engaged a consulting firm as our independent internal control consultant to perform certain agreed-upon-procedures in connection with our internal control policies related to entity-level controls, compliances monitoring controls, finance and accounting procedures, cash management procedures, procurement and accounts payable procedures, inventory management procedures, sales and accounts receivable procedures, fixed assets management procedures and IT generals controls. The independent internal control consultant performed the work put forward recommendations in January 2014 based on the review of our internal control. Accordingly, we have implemented rectification or improvement measures, as the case may be, in response to these findings and recommendations and the independent internal control consultant has completed the follow-up procedures on our internal control system with regard to those actions taken by us. In particular, a list of major laws and regulation which might material affect our major operating subsidiaries of the Group were reviewed by the PRC lawyer. Relevant responsible persons were indicated in the list to regular monitor the compliances of the relevant laws and regulations.

After considering the above rectification and improvement actions taken by our Group, our business nature and operation scale, our Directors are satisfied that our internal control system is adequate and effective for our current operation environment and consider that the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules.

BUSINESS

The Sole Sponsor concurs with our Directors that the occurrence of the non-compliance incidents were principally due to the lack of knowledge of and familiarity with the applicable legal requirements rather than any material deficiencies in our internal control system. As part of the listing process, our Directors have undergone directors' training and have also engaged Hong Kong and PRC legal advisors to advise them on applicable legal or regulatory requirements. In addition, after making enquiries of the management of our Company and interviewing its internal control consultant regarding our internal control system, nothing has come to the Sole Sponsor's attention that our Company's enhanced internal control measures are inadequate and ineffective. Based on the above, the Sole Sponsor is of the view that these past non-compliance incidents do not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules.

Legal Proceedings

Our Group may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of our business. As of the Latest Practicable Date, we were not a party to any material arbitration, litigation or administrative proceedings which we expect to have a material adverse effect on our business or results of operations. We are not aware of any pending or threatened arbitration, litigation or administrative proceedings against us, which we expect will have a material adverse effect on our business or results of operations.

Regulatory Compliance

Our PRC legal advisors, Shu Jin Law Firm, have confirmed that our Group has obtained all necessary licenses, permits, approvals and certificates required for our business operations in all material respects, that such licenses, permits, approvals and certificates are valid and subsisting and that our Group has complied with all applicable laws and regulations during the Track Record Period in all material respects save as otherwise disclosed in this prospectus.

Taxation

Our PRC Legal advisors, Shu Jin Law Firm, have confirmed that, based on the review of confirmation issued by tax bureaus, during the Track Record period, each of our subsidiaries has fully paid up all taxes as required by the applicable tax laws and regulations and was not subject to any administrative penalties.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue and the Global Offering, Mr. Chen and Praise Treasure, an investment holding company, both our Controlling Shareholders will together control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company (assuming the Over-allotment Option is not exercised). Apart from the business of pharmaceuticals industry, our Controlling Shareholders are operating other businesses such as real estates, education, environmental protection, food, biotechnology through a number of companies controlled by the Controlling Shareholders, save as disclosed below, none of which are related to or competing with our business directly or indirectly. As of the Latest Practicable Date, save as disclosed herein, none of our Controlling Shareholders nor any of their respective associates had interests in any other companies which (i) held interests in our business during the Track Record Period and ceased to hold such interests after the Corporate Reorganization; or (ii) may, directly or indirectly, compete with our Group's business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the Global Offering.

Management Independence

Our Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. Mr. Chen, our Controlling Shareholder, is the chairman of our Board and an executive Director.

Each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our senior management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

Operational Independence

We have established our own organizational structure comprised of individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies or raw materials for production as well as customers. We have also established various internal controls procedures to facilitate the effective operation of our business. Our Directors confirmed that our Group will not enter into any other transactions of similar nature with our connected persons and their associates after the Listing that will affect our operational independence.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. Our Directors confirm that as of the Latest Practicable Date, all financial assistance, including amounts due to, and loans or guarantees provided by our Controlling Shareholders to our Group, were repaid or released or otherwise settled in full. Therefore, there is no financial dependence on our Controlling Shareholders.

EXCLUDED BUSINESSES AND INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Wuhan Baixin

Wuhan Baixin was established under the laws of the PRC on March 27, 1996 and is currently wholly-owned by Pa Shun Holdings Limited (百信集團控股有限公司), an investment holding company, owned as to 35% by Mr. Chen, 25% by Ms. Lee Yuk Suet (李玉雪), Mr. Chen's spouse, and 20% by Mr. Chan Chun Ming (陳俊鳴), Mr. Chen's son. According to the business license of Wuhan Baixin, its business scope is manufacturing and sales of embrocation (expired by December 31, 2015).

The net profit/(loss) from operation of Wuhan Baixin for each of the three years ended December 31, 2014 according to its PRC accounts was (RMB931,926.93) (audited), (RMB106,443.66) (unaudited) and (RMB535,781.99) (unaudited), respectively.

Wuhan Baixin was not included as part of our Group for the following reasons:

- During the Track Record Period, the pharmaceutical products of Wuhan Baixin were not duplicated with those of our Group with details as followings.

<u>Pharmaceutical products</u>	<u>Products manufactured by Wuhan Baixin</u>	<u>Products manufactured by our Group</u>
保濟油 (Baoji embrocation*)	Y	N
丁香風油精 (Clove Essential Oil*)	Y	N
複方丁香羅勒油 (Compound Basil Oil*)	Y	N
複方醋酸地塞米松乳膏 (Compound Dexamethasone Acetate Cream*)	N	Y
曲咪新乳膏 (Triamcinolone Acetonide Acetate and Miconazole Nitrate and Neomycin Sulfate Cream*) . . .	N	Y
氨苄西林膠囊 (Ampicillin Capsules*)	N	Y
正紅花油 (Zhenghonghua embrocation*)	N	Y
疤痕止癢軟化乳膏 (Antipruritic Ointment for Cicatrix*) .	N	Y
紅花油 (Honghua embrocation*)	N	Y
白花油 (Baihua embrocation*)	N	Y

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Wuhan Baixin has applied with Hubei Food and Drug Administration* (湖北省食品藥品監督局) to transfer (“First Transfer”) all the pharmaceutical production technology of the above-mentioned three pharmaceutical products to Chengdu Pashun. Based on our communication with Hubei Food and Drug Administration* (湖北省食品藥品監督局), we could not ensure when these technologies can be officially transferred to Chengdu Pashun since it is a cross-province transfer. We subsequently discussed with Wuhan Baixin and Wuhan Baixin agreed to withdraw the First Transfer application and then transfer the pharmaceutical production technologies to an Independent Third Party located in Wuhan, Hubei Province to streamline the administrative approval procedures. As informed by Wuhan Baixin, they withdrew the First Transfer application in mid-July 2014. Subsequently, Wuhan Baixin agreed to transfer these pharmaceutical production technologies to an Independent Third Party located in Hubei province under a transfer agreement dated August 6, 2014 (the “Second Transfer”) and such Independent Third Party has settled the transfer consideration therein on August 13, 2014. Such Independent Third Party is obliged to file an application with Hubei Food and Drug Administration* (湖北省食品藥品監督局) to register the Second Transfer. Wuhua Baixin agreed to assist such Independent Third Party on the application. Wuhan Baixin would not manufacture these three pharmaceutical products commencing from the date of the agreement for the Second Transfer. In addition, Wuhan Baixin does not own the necessary factories and equipment to manufacture pharmaceutical products.

2. During the Track Record Period, our Group and Wuhan Baixin entered into the below transactions: the sales of finished products manufactured by Wuhan Baixin to Chengdu Pashun, all of which have been terminated in the year of 2013. For each of the three years ended December 31, 2012, 2013 and 2014, the total sales by Wuhan Baixin to Chengdu Pashun amounted to approximately RMB262,000, (RMB29,000) (return of goods) and nil, respectively. Save as disclosed in this paragraph, there are no other transactions between Wuhan Baixin and our Group during the Track Record Period.
3. Throughout the Track Record Period, the management team of Wuhan Baixin and that of our Group were entirely different and separated from each other. Mr. Chen was only a shareholder and Mr. Chen is not involved in the daily operations of Wuhan Baixin as of the Latest Practicable Date.
4. In preparation of the Listing and in order to focus on our core business, Wuhan Baixin will not form part of our Group.

Considering the above, our Directors are of the view that our Group and Wuhan Baixin are two separate groups operating independently of each other and the business of our Group and that of Wuhan Baixin do not constitute any competition.

Hainan Baixin

Hainan Baixin was established under the laws of the PRC on February 15, 1992 and is owned as to 90% by Toyot Pa Shun Medicine Company (東洋百信藥業公司), a branch of Hopecorns Industrial Ltd (合強實業有限公司), a limited liability company owned as to 50% by Mr. Chen and 50% by Mr. Chen’s spouse, and 10% by Hainan Pharmaceutical Technology Development Co., Ltd.* (海南醫藥技術開發公司), a state-owned company and an Independent Third Party. Hainan Baixin is principally engaged in the manufacturing and sales of Chinese traditional medicines and western medicines.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The net profit/(loss) from operation of Hainan Baixin for each of the three years ended December 31, 2014 according to its PRC accounts was (RMB2,632,938.63) (audited), (RMB571,157.81) (audited), and RMB96,603.41 (unaudited), respectively.

Hainan Baixin was not included as part of our Group for the following reasons:

1. Although Hainan Baixin is also engaged in the pharmaceutical industry, the specific products of Hainan Baixin are entirely different from those of our Group. The business scope of Hainan Baixin mainly focuses on oral medicines while our Group mainly focuses on medicines for external use. Please see below for details.

Pharmaceutical products	Products manufactured by Hainan Baixin	Products manufactured by our Group
氨金黃敏顆粒 (Paracetamol Anantadine Hydrochloride Artificid Cow-bezar and Chlorphenamine Mdeate Granules*)	Y	N
氨咖黃敏膠囊 (Paracetamol, Caffein, Artificial Cow-bezoar and chlorphenamine Maleate Capsules*)	Y	N
複方氨酚烷胺膠囊 (Compound Paracetamol and Amantadine Hydrochloride Capsules*)	Y	N
薄荷桉油含片(II) (Menthol and Eucalyptus Oil Buccal Tablets (II)*)	Y	N
西咪替丁膠囊 (Cimetidine Capsules*)	Y	N
複方膽通膠囊 (Compound Dantong Capsules*)	Y	N
利巴韋林顆粒 (Ribavirin Granules*)	Y	N
牛磺酸顆粒 (Taurine Granules*)	Y	N
替硝挫陰道泡騰片 (Tinidazole Vaginal Effervescent Tablets*)	Y	N
阿奇霉素分散片 (Azithromycin Dispersible Tablets*)	Y	N
複方醋酸地塞米松乳膏 (Compound Dexamethasone Acetate Cream*)	N	Y
曲咪新乳膏 (Triamcinoloné Acetonide Acetate and Miconazole Nitrate and Neomycin Sulfate Cream*)	N	Y
氨苄西林膠囊 (Ampicillin Capsules*)	N	Y
正紅花油 (Zhenghonghua embrocation*)	N	Y
疤痕止癢軟化乳膏 (Antipruritic Ointment for Cicatrix*)	N	Y
紅花油 (Honghua embrocation*)	N	Y
白花油 (Baihua embrocation*)	N	Y

2. During the Track Record Period, our Group and Hainan Baixin entered into the below transaction: the sales of finished products manufactured by Hainan Baixin to our Group, all of which have been terminated in the year of 2013. For each of the three years ended December 31, 2012, 2013 and 2014, the total sales by Hainan Baixin to our Group amounted to approximately RMB3,054,000, RMB1,186,000 and RMB85,396 (our Group and Hainan Baixin entered into one contract in November 2013, and the sales thereunder was completed in

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

June 2014), respectively. Save as disclosed in this paragraph, there are no other transactions between Hainan Baixin and our Group during the Track Record Period.

3. Throughout the Track Record Period, the management team of Hainan Baixin and that of our Group were entirely different and separated from each other. Mr. Chen is only a shareholder of Hainan Baixin. Mr. Chen did not and is not involved in the daily operations of Hainan Baixin as of the Latest Practicable Date.
4. In preparation of the Listing and in order to focus on our core business, Hainan Baixin will not form part of our Group.

Considering the above, our Directors are of the view that our Group and Hainan Baixin are two separate groups operating independently of each other and the business of our Group and that of Hainan Baixin do not constitute any competition.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders has entered into the Deed of Non-competition in favour of our Company, pursuant to which each of our Controlling Shareholders has undertaken to our Company (for itself and for the benefit of its subsidiaries) that such Controlling Shareholder would not and would procure that its or his associates (except any members of our Group) would not, during the period that the Deed of Non-competition remains effective, directly or indirectly, either on such Controlling Shareholder's own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the "Restricted Business").

Our Controlling Shareholders will be entitled to pursue such business opportunity only if (i) our Controlling Shareholders and/or their respective associates have given an offer notice to our Company in relation to the terms and detailed information with respect to their investment, participation and engagement in and/or operation of such business opportunity; and (ii) such business opportunity as offered by the third party has first been offered to our Company (for itself and for the benefit of its subsidiaries), including: (a) the terms of offer between our Company (for itself and for the benefit of its subsidiaries) and the third party; or (b) the terms on which our Company (and/or its subsidiaries) to engage in the Restricted Business with our Controlling Shareholders and/or their respective associates, and our Company, after review and approval by the independent non-executive Directors or at any general meeting of Shareholders (if applicable), where our Controlling Shareholders shall abstain from voting, has confirmed that our Company (and/or its subsidiaries) does not intend to invest in, conduct, operate or participate in such business opportunity and has made relevant written confirmation to our Controlling Shareholders, and the major terms on which our Controlling Shareholders and/or their respective associates invest in, conduct, operate or participate in such business opportunity subsequently will not be more favorable than those terms offered to our Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The above undertaking does not apply where:

- (a) the holding by our Controlling Shareholders of interests in the shares of a company other than our Group which are listed on a recognized stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by our Controlling Shareholders and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Controlling Shareholders and/or their respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and their respective associates in aggregate.
- (b) any opportunity to invest, participate, be engaged in and/or operate any Restricted Business has first been offered or made available by our Controlling Shareholders and/or their respective associates to us, and after decision by our independent non-executive Directors and approval by our Board of Directors and/or Shareholders as required under the relevant laws and regulations (including but not limited to the Listing Rules) and in accordance with our Articles of Association, who has declined in writing such opportunity to invest, participate, be engaged in or operate the Restricted Business, and that the principal terms by which such Controlling Shareholder (or his or its respective associates) subsequently invests, participates, engages in or operates the Restricted Business are no more favourable than those offered to the member of our Group.

Pursuant to the Deed of Non-competition, the above restrictions would only cease to have effect upon the earlier of: (i) the Shares of our Company cease to be listed on the Stock Exchange; (ii) in relation to each Controlling Shareholder, such Controlling Shareholder or such Controlling Shareholder's associate ceases to hold an equity interest in our Company; or (iii) the relevant Controlling Shareholders and/or their respective associates jointly or severally are entitled to exercise or control the exercise of less than 30% in aggregate of the voting power at general meetings of our Company and no longer the single largest shareholder of our Company.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage any conflict of interests arising from the competing business of our Controlling Shareholders and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, at least on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-competition;
- (ii) our Controlling Shareholders have undertaken to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (iii) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual reports of our Company;
- (iv) our Controlling Shareholders will make an annual declaration in relation to compliance with the Deed of Non-competition in the annual reports of our Company;
- (v) our Company will disclose, with basis, in our annual and interim reports of all rejection by our Company of new opportunities in the Restricted Business that have been referred from our Controlling Shareholders under the Deed of Non-competition; and
- (vi) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Deed of Non-competition, he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of nine Directors, including four executive Directors, two non-executive Directors, and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board's work at the shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports; formulating proposals for profit distributions, recovery of losses and for the increase or reduction of our registered capital, as well as exercising other powers, functions and duties conferred by our Memorandum and Articles of Association. We have entered into service contracts with each of our executive Directors and letters of appointment with each of our non-executive Directors and each of our independent non-executive Directors on May 26, 2015.

The following table sets forth information regarding members of the Board of Directors and senior management of our Company.

Directors

Name	Age	Position	Year of joining our Group	Roles and responsibilities	Year of appointment	Relationship among Directors and senior management
Mr. Chen Yenfei, or Mr. Chen Yen Fei (陳燕飛)	67	Executive Director, chairman of the Board, chief executive officer and member of remuneration committee, chairman of nomination committee and chairman of corporate governance committee	1989	overall business management and strategic planning of our Group	2011	uncle of Mr. Su Si
Mr. Su Si (蘇肆)	43	Executive Director	1993	external relationship and liaison	2012	nephew of Mr. Chen
Mr. Shen Shun (沈順)	43	Executive Director	1998	sales and internal control	2012	N/A
Mr. Zhou Jian (周建)	58	Executive Director and member of corporate governance committee	1999	medicines supply and internal control	2012	N/A

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Year of joining our Group	Roles and responsibilities	Year of appointment	Relationship among Directors and senior management
Mr. Li Ho Tan	50	Non-executive Director	2012	supervision of compliance, corporate governance and business development	2012	N/A
Mr. Masahiro Honna (本名正博先生)	42	Non-executive Director	2012	supervision of business development of Japanese-style cosmeceutical stores	2012	N/A
Mr. Liu Liangzhong (劉良忠先生)	51	Independent non-executive Director and chairman of audit committee and chairman remuneration committee	2015	overall supervision of compliance, corporate governance	2015	N/A
Mr. Wong Tak Shing (黃德盛先生)	52	Independent non-executive Director and member of audit committee and remuneration committee	2015	overall supervision of compliance, corporate governance	2015	N/A
Mr. Min Feng (閔鋒先生)	64	Independent non-executive Director and member of audit committee, nomination committee and corporate governance committee	2015	overall supervision of compliance, corporate governance	2015	N/A

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Name	Age	Position	Roles and Responsibilities	Year of joining our Group	Year of appointment as senior management	Relationship among Directors and senior management
Mr. Cheng Xueming (程學明先生)	46	deputy general manager of the marketing department	sale of self-manufactured products of our Group	2008	2010	N/A
Mr. Huang Qi (黃奇先生)	53	general executive manager in charge of chain store business	development of our self-operated retail pharmacy stores and franchise retail pharmacy stores and the arrangement for the daily business	2011	2011	N/A
Mr. Li Xiaoduo (李小多先生)	46	manager in charge of manufacturing	production and quality control	1998	1998	N/A
Mr. Xue Fei (薛飛先生)	34	manager in charge of administration	daily administration	2014	2014	N/A
Ms. Zhang Suihui (張遂會女士)	52	manager in charge of quality inspection department	product's quality inspection	2011	2011	N/A
Ms. Tang Zaixiu (唐再秀女士)	36	head of accounting department	daily accounting	1999	2013	N/A
Mr. Pang, Peter Chun Ming (彭浚銘先生) (alias Pang Chun Ming or Pang Yan Pak (彭忻栢先生)	38	chief financial officer and one of the joint company secretaries	financial reporting, investor relationship and corporate governance	2015	2015	N/A

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

CHEN YENFEI, or CHEN YEN FEI, (陳燕飛), aged 67, was appointed as our executive Director on May 3, 2011. He is the founder of our Group, the chairman of the Board and our chief executive officer. He is mainly responsible for the overall business management and strategic planning of our Group. Mr. Chen has approximately 30 years of experience in the pharmaceutical industry. He has been the chairman of Chengdu Pashun since 1995, and has been the chairman of Pashun HK since 1989. Mr. Chen had not been a director of any listed company for the three years preceding the Latest Practicable Date. Mr. Chen graduated from Zhongnan University of Economics* (中南財經大學) (predecessor of Zhongnan University of Economics and Law (中南財經政法大學)) with a bachelor degree in July 1987, majoring in statistics and Hubei Traditional Chinese Medical Science College* (湖北中醫學院) (predecessor of Hubei University of Chinese Medicine (湖北中醫藥大學)) in June 1998, majoring in traditional Chinese medicine, respectively. Mr. Chen also was elected as one of members of the first session of standing committee of China Association of Traditional Chinese Medicine* (中國中藥協會). He was the vice-president of Wuhan Pharmaceutical Profession Association* (武漢醫藥行業協會) in 2003, vice-president of Hubei Guangcai Association* (湖北光彩學會) since 2006 and the executive committee vice chairman of Hong Kong Chamber of Commerce in China — Wuhan (中國香港地區商會 — 武漢) since 2010, respectively. Mr. Chen is the uncle of Mr. Su Si.

Upon the Listing, we will not separate the roles of the chairman of our Board and chief executive officer. Mr. Chen is the chairman and chief executive officer of our Group. He has extensive experience in medicine industry and is responsible for the overall corporate strategies, planning and business management of our Group. Our Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of our Group. The balance of power and authorities is ensured by the operation of our Board and our senior management, which comprise experienced and high caliber individuals. Our Board currently comprises four executive Directors, two non-executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

He has no other information to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

SU SI (蘇肆), aged 43, was appointed as an executive Director of our Company on February 27, 2012. He is mainly responsible for external relationship and liaison. He has about 18 years of experience in the pharmaceutical industry. Mr. Su joined our Group in 1993 and has worked as sales director and sales manager in Chengdu Pashun and the general manger in Chunshengtang from 2010 to 2012, respectively. Mr. Su has worked as vice president of Wuhan Baixin Holdings Group Limited* (武漢百信控股集團有限公司), responsible for medicine sales since 2008. Mr. Su had not been a director of any listed company for the three years preceding the Latest Practicable Date. Mr. Su has taken courses in the leadership class in Southwestern University of Finance and Economics* (西南財經大學) in December 2013. In addition, he has attended the School of Continuing Education, Tsinghua University* (清華大學繼續教育學院) from September 2010 to December 2011. Mr. Su obtained the pharmacist qualification* (藥師資格) granted by Hubei Pharmaceutical Company* (湖北省醫藥公司) in July 2001. Mr. Su completed a two year course by distance learning from School of Continuing Education of Beijing Normal University* (北京師範大學繼續教育學院), majoring in sales and marketing in July 1997. Mr. Su is the nephew of Mr. Chen. He has no other information to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

SHEN SHUN (沈順), aged 43, was appointed as an executive Director of our Company on February 27, 2012. Mr. Shen is mainly responsible for sales and internal control. He has about 15 years of experience in the pharmaceutical industry. Mr. Shen has been appointed as a vice general manager of Chengdu Kexun since 1998, responsible for sales. Mr. Shen had not been a director of any listed company for the three years preceding the Latest Practicable Date. Mr. Shen obtained a master degree of business administration from a course jointly cooperated by Southwest Jiaotong University* (西南交通大學) and University of South Australia in May 2011. He graduated from Southwest Jiaotong University* (西南交通大學), majoring in business administration in June 2006 by long-distance online education* (網絡教育學院). He has no other information to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

ZHOU JIAN (周建), aged 58, was appointed as an executive Director of our Company on February 27, 2012. Mr. Zhou is mainly responsible for medicines supply and internal control. He has over 30 years of experience in the pharmaceutical industry. Mr. Zhou has been appointed as the general manager of Chengdu Kexun since 1999, responsible for purchase and sale business and overall management. Prior to joining our Group, Mr. Zhou worked for Shenzhen Hua Chen Pharmaceuticals Co., Ltd* (深圳華辰藥業有限公司) as a manager from 1991 to 1998, responsible for management and operation of the company. He also worked for Chongqing Yong Zhou Chinese Herbal Medicine Company* (重慶市永州區中藥材公司) as an assistant manager from 1979 to 1991, responsible for purchase and sale business. Mr. Zhou had not been a director of any listed company for the three years preceding the Latest Practicable Date. Mr. Zhou graduated from Yuzhou University* (渝州大學) in February 1992, majoring in enterprise management. In addition, Mr. Zhou obtained the qualification of economist in entrepreneurial management* (企業管理經濟師) granted by Qualification Evaluation Committee of Intermediate-level Profession of the China National Group Corporation of Traditional and Herbal Medicine* (中國藥材公司中級專業技術職務評審委員會) in November 1996. He has no other information to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

Non-executive Directors

LI HO TAN, aged 50, was appointed as a non-executive Director of our Company on February 27, 2012, mainly responsible for overall supervision of compliance, corporate governance and business development. Mr. Li has worked as chief executive officer for Fujian Red Bridge Capital Management Co., Ltd* (福建紅橋創業投資管理有限公司) since June 2009. Mr. Li graduated from University of International Relations* (國際關係學院) with a bachelor degree in July 1984, majoring in Japanese language and culture. He has no other information to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

MASAHIRO HONNA (本名正博), aged 42, a non-executive Director of our Company, was appointed as our non-executive Director on February 27, 2012. Mr. Masahiro Honna has been a chief executive officer of Kygo Investment Limited, after he established Kygo Investment Limited in 2009. He also worked for Goldman Sachs Gao Hua Securities Company Limited as an executive director from June 2007 to January 2009, for Goldman Sachs Japan Co, Ltd from January 2001 to June 2007, and for Nomura Securities Co., Ltd from April 1997 to December 2000. Mr. Masahiro Honna had not been a director of any listed company for the three years preceding the Latest Practicable Date. Mr. Masahiro Honna graduated from the College of Arts and Sciences (Kyoyo-Gakubu) of the University of Tokyo with a diploma of bachelor of liberal arts in international relations in March 1997. He has no other information to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

LIU LIANGZHONG (劉良忠), aged 51, was appointed as an independent non-executive Director of our Company on May 26, 2015. He is mainly responsible for overall supervision of compliance and corporate governance. Mr. Liu has about 30 years of experience in the food science and engineering industry. He has worked as a professor in Wuhan Polytechnic University* (武漢輕工大學) since 2004, specializing in food science and engineering. He worked as a lecturer and associated professor from 1992 to 2001 and as a teaching assistant from 1986 to 1989 in Yangtze University* (長江大學). Mr. Liu had not been a director of any listed company for the three years preceding the Latest Practicable Date. Mr. Liu obtained a doctor degree in processing and storage of agricultural products Huazhong Agricultural University* (華中農業大學) on June 17, 2004. In addition, he graduated from Beijing Agricultural University* (北京農業大學) in July 1992, majoring in storage and processing of agricultural products and obtained a bachelor degree in meat product safety from Hangzhou School of Commerce* (杭州商學院) (predecessor of Zhejiang Gongshang University (浙江工商大學)) in July 1986. He has no other information to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

WONG TAK SHING (黃德盛), aged 52, was appointed as independent non-executive Director of our Company on May 26, 2015. He is mainly responsible for overall supervision of compliance and corporate governance. Mr. Wong has more than 26 years of experience in various industries, the details of which are set forth in the table below.

He worked in various companies listed on the Stock Exchange, details of which are set forth as below.

Period	Companies	Positions and responsibilities
March 2011– present	L'sea Resources International Holdings Limited (利海資源國際控股有限公司) (Stock code: 195) (principally engaged in the manufacturing and sales of insulation and heat resistance materials)	Regional chief financial officer, company secretary and authorized representative, responsible for accounting, compliance issues and project management.
December 2009– present	China Digital Culture (Group) Limited (中國數碼文化(集團)有限公司) (Stock code: 8175) (principally engaged in the provision of digital copyright management solution services)	Independent non-executive director, responsible for corporate governance and compliance issues.
January 2010– February 2011	Global Energy Resources International Group Ltd. (環球能源資源國際集團有限公司) (Stock code: 8192) (principally engaged in the manufacturing and sales of air-conditioners and trading of metal products)	Chief financial officer, responsible for accounting and corporate finance.

DIRECTORS AND SENIOR MANAGEMENT

Period	Companies	Positions and responsibilities
April 2006– September 2009	Sun Innovation Holdings Limited (subsequently renamed as Digital Domain Holdings Limited) (Stock code: 547) (at the material time principally engaged in property investment and media entertainment business)	Independent non-executive director, responsible for corporate governance and compliance issues.
June 2007– January 2008	Wah Yuen Holdings Limited (華園控股有限公司) (subsequently renamed as China City Infrastructure Group Limited (中國城市基礎設施集團有限公司) (Stock code: 2349) (at the material time principally engaged in food manufacturing, research and development, sales and distribution)	Chief financial officer and deputy general manager of a subsidiary company, responsible for accounting and corporate finance.
April 2006– May 2007	IA International Holdings Limited (毅興科技國際控股有限公司), (subsequently renamed as Sky Forever Supply Chain Management Group Limited (宇恒供應鏈集團有限公司)) (Stock code: 8047) (at the material time principally engaged in research, development and provision of information-on-demand system solutions)	Executive director, deputy chairman, authorized representative company secretary and qualified accountant, responsible for accounting and corporate finance.
January 2003– April 2003	Sing Pao Media Group Limited (subsequently renamed as Sing Pao Media Enterprises Limited) (Stock code: 8010) (at the material time principally engaged in publication of newspapers and magazines)	Executive director, authorized representative and company secretary, responsible for corporate finance and compliance.
March 2000– November 2003	Sun Media Group Holdings Limited (subsequently renamed as Up Energy Development Group Limited (優派能源發展集團有限公司)) (Stock code: 307) (at the material time principally engaged in media-related business, including broadcasting and publishing business)	company secretary (from August 2001 to April 2003); controller — personnel and administration (from March 2000 to October 2001), vice president — personnel and administration (from October 2001 to June 2002) and group vice president (from June 2002 to November 2003) of a subsidiary company, responsible for corporate development and compliance.

DIRECTORS AND SENIOR MANAGEMENT

In addition, he worked as the financial controller and company secretary of Times Publishing (Hong Kong) Limited from December 1999 to February 2000. From July 1991 to April 1999, he worked for Asia Television Limited with his last position as controller — personnel and administration. He was a consultant of Chu Lung Hai, Jimmy & Co. CPA from January 2004 to April 2006. From January 1989 to June 1989, he was a semi-senior accountant in Deloitte Haskins & Sells (subsequently renamed as Deloitte Touche Tohmatsu) in Hong Kong. From November 1985 to January 1988, he worked in PriceWaterhouse (subsequently renamed as PriceWaterhouseCoopers) in Hong Kong as an audit assistant.

Mr. Wong obtained a diploma in financial management from the University of New England, Australia in April 1989, and a bachelor degree of science in the social science in business economics and accounting from the University of Southampton, the United Kingdom in July 1985. Mr. Wong has been an associate member of the Hong Kong Institute of Certified Public Accountants since January 1991, and the Australian Society of Certified Practising Accountants since January 1989. He has no other information to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

MIN FENG (閔鋒), aged 64, was appointed as independent non-executive Director of our Company on May 26, 2015. He is mainly responsible for overall supervision of compliance, corporate governance and business development. He has about 30 years of experience in legal business. Mr. Min has been employed by Hubei No. 6 Law Firm* (湖北省第六律師事務所) (later renamed as the Hubei Zhengyuan Law Firm* (湖北正苑律師事務所)) since 1994 and become the partner since 2001. In addition, he worked for Zhongnan College of Political Science and Law* (中南政法學院) (predecessor of Zhongnan University of Economics and Law (中南財經政法大學)) as a civil law associate professor since June 1992 and was appointed as a deputy director of the economic law department. Mr. Min obtained a master degree in civil law from Zhongnan College of Political Science and Law* (中南政法學院) on December 20, 1998 and a bachelor degree in law from Hubei College of Finance and Economics* (湖北財經學院) in January 1982. Mr. Min was qualified as senior lawyer* (一級律師) by Qualification Evaluation Committee of Senior Lawyer in Hubei Province* (湖北省高級律師職務評審委員會) on August 18, 2000. He has no other information to be disclosed pursuant to Rules 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

CHENG XUEMING (程學明), aged 46, our deputy general manager of the marketing department since 2010. He joined our Group in 2008 and is mainly responsible for sale of self-manufactured products of our Group. Mr. Cheng has about 20 years of experience in the pharmaceutical industry. Mr. Cheng worked as sales deputy general manager of Chengdu Pashun from 2008 to 2012, mainly responsible for sales. Prior to joining our Group, he was the sales director of Hubei Wuhan Yi Ao Pharmaceuticals Limited* (湖北武漢怡奧藥業有限公司) from 1999 to 2008, and worked for Wuhan Baixin from 1993 to 1999, mainly responsible for sales. Mr. Cheng graduated from Xi An Institute of Technology* (西安工業學院) (predecessor of Xi'an Technological University (西安工業大學)) in July 1991, majoring in financial accounting. He had not been a director of any company listed for three years preceding the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

HUANG QI (黃奇), aged 53, our general executive manager in charge of retail pharmacy store business. He joined our Group in 2011 and is mainly responsible for the development of our self-operated retail pharmacy stores and franchise retail pharmacy stores and the arrangement for the daily business. Mr. Huang has over 30 years of experience in the pharmaceutical industry. Prior to joining our Group, Mr. Huang worked as the general manager of the Hebei Jin Tian Yan Xiao Medicine Company* (河北金天燕霄醫藥有限公司) from 2007 to 2011. He worked for Shijiazhuang Huanxiang Environment Equipment Co., Ltd.* (石家莊環祥環境設備有限公司) as a deputy general manager from 2005 to 2007. He also worked for North China Pharmaceutical Group Huayi Pharmacy Limited* (華北製藥集團華益大藥房有限公司) as a general manager from 1978 to 2005. Mr. Huang graduated from Hebei Medical University* (河北醫科大學) in June 2006, majoring in pharmaceuticals. In addition, he graduated from Correspondence Institute of the Party School of Central Committee of the Communist Party of China* (中共中央黨校函授學院) in 1997, majoring in economic management by correspondence course and graduated from Hebei Youth Officials College* (河北青年管理幹部學院) in June 1990 majoring in politics. He had not been a director of any listed company for three years preceding the Latest Practicable Date.

LI XIAODUO (李小多), aged 46, is our manager in charge of manufacturing of our Group. Mr. Li joined our Group in 1998 and is mainly responsible for the production and quality control. Mr. Li has over 16 years of experience in the pharmaceutical industry. Mr. Li was appointed as the deputy general manager of Wuhan Baixin Holdings Group Limited* (武漢百信控股集團有限公司) since March 1998 in charge of manufacturing. Prior to joining our Group, he was the workshop supervisor and chief of biotech of Chengdu Di Kang Pharmaceuticals Limited* (成都迪康製藥公司) from February 1996 to February 1998. He also worked for Chongqing Oriental Pharmaceutical Co., Limited* (重慶東方藥業股份有限公司) from July 1994 to February 1996, responsible for developing new products. Mr. Li graduated from Chengdu College of Traditional Chinese Medicine* (成都中醫學院) in July 1994, majoring in traditional Chinese medicine. He had not been a director of any listed company for three years preceding the Latest Practicable Date.

XUE FEI (薛飛), aged 34, our manager in charge of administration of our Group. He joined our Group in February 2014 and is mainly responsible for daily administration. Mr. Xue has over 8 years of experience in the pharmaceutical industry. Prior to joining our Group, he worked in Chengdu En Wei Investment Group Co., Ltd.* (成都恩威投資(集團)有限公司) from September 2008 to November 2013. Mr. Xue graduated from Chengdu University of Traditional Chinese Medicine* (成都中醫藥大學) in June 2006 with a master degree in pharmacology. He was accredited as the engineer in July 2009 by Chengdu Reform of Professional Title Leading Group* (成都市職稱改革工作領導小組). Mr. Xue was admitted to the MBA program in University of Electronic Science and Technology of China* (電子科技大學) since August 2012. He had not been a director of any listed company for three years preceding the Latest Practicable Date.

ZHANG SUIHUI (張遂會), aged 52, our manager in charge of quality inspection department of our Group. She joined our Group in 2011 and is mainly responsible for product's quality inspection. Ms. Zhang has about 30 years of experience in the pharmaceutical industry. She has been the head of quality control since she joined Chengdu Kexun in 2011. Prior to joining our Group, she was the head of quality assurance and quality control of Sichuan Taichi Pharmacy Chain Limited Company* (四川太極大藥房連鎖有限公司) from December 2000 to May 2011. In addition, she worked for Sichuan Petroleum Administration General Hospital* (四川石油管理局總醫院) as a traditional Chinese pharmacist supervisor from 1993 to October 2000. Ms. Zhang graduated from Chengdu University of Traditional Chinese Medicine* (成都中醫藥大學) by correspondence course in June 2000, majoring in traditional

DIRECTORS AND SENIOR MANAGEMENT

Chinese pharmacy. Ms. Zhang obtained required qualifications for Licensed Pharmacist of Chinese Medicine* (執業中藥師) in November 1999. Ms. Zhang was accredited as a biomedical senior engineer* (生物醫藥高級工程師) in December 2012 by Chengdu Reform of Professional Title Leading Group Office* (成都市職稱改革工作領導小組辦公室). She had not been a director of any listed company for three years preceding the Latest Practicable Date.

TANG ZAIXIU (唐再秀), aged 36, is the head of accounting department. She is mainly responsible for daily accounting. Ms. Tang has about 15 years of experience in accounting. She has worked as cashier, accountant, financial supervisor and financial manager of Chengdu Kexun since 1999. Ms. Tang graduated from Chongqing Technology and Business University* (重慶工商大學) on 30 June 2007, majoring in accounting. She had not been a director of any listed company for three years preceding the Latest Practicable Date.

PANG, PETER CHUN MING (彭浚銘) (alias Pang Chun Ming or Pang Yan Pak (彭焯栢)), aged 38, was appointed as the chief financial officer and one of the joint company secretaries of our Group in January 2015. He is responsible for the Group's financial reporting, investor relationship and assisting the Board on governance matters. He has more than 10 years of experiences in accounting, auditing and finance. From April 2011 to December 2014, Mr. Pang was appointed as a chief financial officer and company secretary of Renjian Antong International Holdings Limited, a Fujian based logistics company, mainly responsible for accounting and finance and overall compliance. Prior to that, he worked in Deutsche Bank AG, Hong Kong Branch as an associate in global banking division from September 2010 to April 2011 and worked as an associate director in corporate finance department of BOCI Asia Limited, a subsidiary of BOC International Holdings Limited, from March 2008 to September 2010, respectively, during which he accumulated experience in banking and corporate finance. Mr. Pang worked in Ernst & Young LLP in the United States as a senior from July 2003 to February 2006 and as a senior in the assurance standards services group from February 2007 to October 2007. He worked in Ernst & Young in Hong Kong as a manager in assurance and advisory business service department from November 2007 to March 2008. Mr. Pang received a master degree of accounting from the University of Southern California, the United States in May 2003 and completed a bachelor degree of arts major in economics from the University of California at Berkeley, the United States in August 1999. He has been a certified public accountant of the California Board of Accountancy of the United States since February 2006 and a chartered financial analyst (CFA) charterholder since November 2006. He had not been a director of any listed company for three years preceding the Latest Practicable Date.

JOINT COMPANY SECRETARIES

Mr. Pang, Peter Chun Ming (彭浚銘) is one of our joint company secretaries. Please refer to his biography under the paragraph headed "Senior Management" above.

Mr. Tsoi, Yuen Hoi (蔡元開), was appointed as one of our joint company secretaries on May 26, 2015. He is a partner of T.O.Ho & Co. CPA. He has over 10 years' experiences in auditing. Mr. Tsoi holds a degree of bachelor of arts majoring in economics from York University, Toronto, Canada. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

DIRECTORS AND SENIOR MANAGEMENT

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since our principal business operations and manufacturing facilities are primarily located in China, our executive Directors and senior management members are and will continue to be based in China. At present, Mr. Pang, Peter Chun Ming and Mr. Tsoi, Yuen Hoi, our joint company secretaries, are ordinarily resident in Hong Kong and none of our executive Directors is ordinarily resident in Hong Kong. We have applied to the Stock Exchange for, and obtained, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules subject to certain conditions. For further details, please refer to the section headed “Waivers from Strict Compliance with the Listing Rules” in this prospectus.

COMPLIANCE ADVISOR

In compliance with Rule 3A.19 of the Listing Rules, we have appointed China Everbright Capital Limited as our Compliance Adviser to act as our additional channel of communication with the Stock Exchange for the period commencing on the date of the initial Listing of our Shares on the Main Board of the Stock Exchange and ending on the date on which we comply with Rule 13.46 in respect of our financial results for the first full financial year commencing after the date of our initial Listing. The contact person of our Compliance Adviser will be fully available to answer enquiries from the Stock Exchange. We have entered into a Compliance Adviser’s agreement with the Compliance Adviser, the material terms of which are summarized as follows:

- (a) we have appointed the Compliance Adviser for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;
- (b) the Compliance Adviser shall provide us with services, including guidance and advice as to compliance with the requirements under the Listing Rules and all other applicable laws, regulations and codes, and to act as one of our channels of communication with the Stock Exchange;
- (c) we have agreed to indemnify the Compliance Adviser against, and all losses and damage suffered and all payments costs and expenses properly and reasonably made or incurred arising out of or in connection with: (aa) the lawful and proper performance by the Compliance Adviser of its duties hereunder, (bb) the breach by our Company of its obligations hereunder, and (cc) the failure by our Company, its Directors, authorized representatives, officers or agents to comply with the Listing Rules and other applicable laws, rules, codes and guidelines, except to the extent that any such action, claim or proceeding made against, or any such loss or damage suffered or any such payment, cost or expense made or incurred is a result of any of fraud, willful default or gross negligence on the part of the Compliance Adviser;
- (d) we may terminate the appointment of the Compliance Adviser, by service of a one-month notice, only if its work falls short of standard acceptable to the market in general or if there is a material dispute (which cannot be resolved within 60 days) over fees payable to it as permitted by Rule 3A.26 of the Listing Rules; and

DIRECTORS AND SENIOR MANAGEMENT

- (e) the Compliance Adviser will have the right to resign or terminate its appointment by service of a one-month notice to us if we materially breach the agreement.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference pursuant to the Board meeting on May 26, 2015 in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The audit committee currently consists of three independent non-executive Directors, being Mr. Min Feng, Mr. Liu Liangzhong and Mr. Wong Tak Shing with Mr. Liu Liangzhong serving as chairman of the committee. Mr. Liu Liangzhong has the appropriate professional qualification as set out in Rule 3.10(2) of the Listing Rules.

The primary duties of the audit committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee with written terms of reference pursuant to the Board meeting on May 26, 2015 in compliance with paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee currently consists of three Directors, being Mr. Chen, Mr. Liu Liangzhong and Mr. Wong Tak Shing with Mr. Liu Liangzhong serving as chairman of the committee.

The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for the Directors and senior management.

Nomination Committee

We have established a nomination committee with written terms of reference pursuant to the Board meeting on May 26, 2015 in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The nomination committee currently consists of three Directors, being Mr. Chen, Mr. Liu Liangzhong and Mr. Min Feng, with Mr. Chen serving as chairman of the committee.

The primary functions of the nomination committee are to make recommendations to our Board regarding the appointment of our Board.

DIRECTORS AND SENIOR MANAGEMENT

Corporate Governance Committee

We have established a corporate governance committee with written terms of reference pursuant to the Board meeting on May 26, 2015 in compliance with paragraph D.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The corporate governance committee currently consists of three Directors, being Mr. Chen, Mr. Min Feng and Mr. Zhou Jian, with Mr. Chen serving as chairman of the committee.

The primary functions of the corporate governance committee are to develop and review an issuer's policies and practices on corporate governance and make recommendations to the board, review and monitor the training and continuous professional development of directors and senior management, review and monitor the issuer's policies and practices on compliance with legal and regulatory requirements, develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors, and review the issuer's compliance with the code and disclosure in the Corporate Governance Report.

COMPENSATION OF DIRECTORS AND MANAGEMENT

The aggregate amount of remuneration (including fees, salaries, allowances, retirement scheme contributions and other benefits in kind) paid to our Directors by our Group for the three years ended December 31, 2012, 2013 and 2014 were approximately RMB620,000, RMB696,000 and RMB553,000 respectively.

Upon completion of the Global Offering, our remuneration committee will make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval by our Shareholders. Accordingly, the historical remuneration to our Directors during the three years ended December 31, 2012, 2013 and 2014 may not reflect the future levels of remuneration of our Directors.

The aggregate amount of remuneration (including fees, salaries, allowances, retirement scheme contributions and other benefits in kind) paid by our Group to the five highest paid individuals, including our Directors, during each of the three years ended December 31, 2012, 2013 and 2014 were approximately RMB915,000, RMB999,000 and RMB1,386,000 respectively.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office for the three years ended December 31, 2012, 2013 and 2014. Further, none of our Directors had waived any remuneration during the same period.

Save as disclosed above, no other payments including contributions to pension schemes have been paid or are payable, for the three years ended December 31, 2012, 2013 and 2014, by us or any of our subsidiaries to our Directors, and no payments were made during the three years ended December 31, 2012, 2013 and 2014 by us to any of our Directors as an inducement to join or upon joining our Group. According to the present arrangements, the aggregate remuneration of our Directors (including benefits in kind and contributions to our Directors as remuneration by us but excluding any discretionary bonus payable to our Directors) for the financial year ending December 31, 2015 is forecast to be approximately RMB0.9 million.

SHARE CAPITAL

Assuming the Over-allotment Option is not exercised at all, our Company's issued share capital immediately following completion of the Global Offering and the Capitalization Issue will be as follows:

<i>Authorized share capital:</i>	<i>HK\$</i>
2,000,000,000 Shares	2,000,000

Issued and to be issued, full paid or credited as fully paid upon completion of the Global Offering and the Capitalization Issue:

(Shares)		<i>HK\$</i>	Approximate percentage of issued share capital (%)
1,000,000	Shares in issue as of the date of this prospectus	1,000	0.10
749,000,000	Shares to be issued under the Capitalization Issue	749,000	74.90
250,000,000	Shares to be issued under the Global Offering	250,000	25.00
1,000,000,000	Total	1,000,000	100.00

Assuming the Over-allotment Option is exercised in full, our Company's issued share capital immediately following completion of the Global Offering and the Capitalization Issue will be as follows:

<i>Authorized share capital:</i>	<i>HK\$</i>
2,000,000,000 Shares	2,000,000

Issued and to be issued, full paid or credited as fully paid upon completion of the Global Offering and the Capitalization Issue:

(Shares)		<i>HK\$</i>	Approximate percentage of issued share capital (%)
1,000,000	Shares in issue as of the date of this prospectus	1,000	0.10
749,000,000	Shares to be issued under the Capitalization Issue	749,000	72.19
250,000,000	Shares to be issued under the Global Offering	250,000	24.10
37,500,000	Shares to be issued pursuant to the exercise of the Over-allotment Option	37,500	3.61
1,037,500,000	Total	1,037,500	100.00
1,037,500,000	Total	1,037,500	100.00

SHARE CAPITAL

Note:

The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

RANKING

The Offer Shares are ordinary Shares in the share capital of our Company and will rank pari passu in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this prospectus.

Alterations of share capital

Our Company may from time to time by ordinary resolution or special resolution (as the case may be) of Shareholders alter the share capital of our Company. For a summary of the provisions in the Article regarding alterations of share capital, please refer to paragraph headed “2. Articles of Association — 2(c) Alteration of Capital” in Appendix III of this document.

THE SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in the sections headed “Share Option Scheme” in Appendix IV of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option); and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Company’s Shareholders in a general meeting.

SHARE CAPITAL

Further details of this general mandate are set out in the paragraph headed “Further information about our Company — Written resolutions of all Shareholders of our Company passed on May 26, 2015” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Further information about our Company — Repurchase by our Company of our own securities” in Appendix IV to this prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Company’s Shareholders in a general meeting.

For further details of this repurchase mandate, see the paragraph headed “Further information about our Company — Written resolutions of all Shareholders of our Company passed on May 26, 2015” in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the Global Offering and the Capitalization Issue (taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or share options to be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member(s) of our Company:

Long positions in our Company

Name	Capacity/ Nature of interest	As of the Latest Practicable Date		Upon Listing	
		Number of Shares	Approximate percentage of shareholding	Number of Shares	Approximate percentage of shareholding (Assuming no exercise of over-allotment option)
Mr. Chen ⁽¹⁾	Interest in a controlled corporation	650,720	65.07%	488,040,000	48.80%
Praise Treasure ⁽¹⁾	Beneficial Interest	650,720	65.07%	488,040,000	48.80%
Mr. Li Ho Tan ⁽²⁾	Interest in controlled corporations	307,280	30.73%	230,460,000	23.05%
Advance Apex ⁽²⁾⁽³⁾	Beneficial Interest	257,280	25.73%	192,960,000	19.30%
Mr. Cheung, Chi Mang ⁽³⁾	Interest in a controlled corporation	257,280	25.73%	192,960,000	19.30%

Notes:

- (1) Mr. Chen is interested in the entire issued share capital of Praise Treasure and is therefore deemed to be interested in 488,040,000 Shares held by Praise Treasure in our Company.
- (2) Mr. Li Ho Tan is interested in 47% of the issued share capital of Advance Apex and the entire issued share capital of Jumbo Success and is therefore deemed to be interested in 192,960,000 Shares and 37,500,000 Shares which Advance Apex and Jumbo Success will hold, respectively, upon Listing.
- (3) Mr. Cheung, Chi Mang is interested in 50% of the issued share capital of Advance Apex and is therefore deemed to be interested in 192,960,000 Shares which Advance Apex will hold upon Listing.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Global Offering and the Capitalization Issue (taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our consolidated financial information, including the notes thereto, as of and for the years ended December 31, 2012, 2013 and 2014 included in the Accountant's Report set out in "Appendix I — Accountant's Report", which has been prepared in accordance with HKFRS.

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 an integrated pharmaceutical company based in southwestern China. Our vertically integrated business model encompasses major stages of the pharmaceutical industry value chain and enables us to benefit from synergies across business segments. We believe our well-recognized brand and market leadership will continue to enhance our ability to grow our business, expand our customer base and increase our profitability.

We primarily operate in the following three business segments in China:

- *Pharmaceutical distribution.* We source pharmaceutical and healthcare products from (i) commercial suppliers, which primarily consist of pharmaceutical trading companies; and (ii) pharmaceutical manufacturers. We sell the products on a wholesale basis primarily to (i) pharmaceutical wholesalers; (ii) franchise retail pharmacy stores under our "Pa Shun" brand that are owned and operated by our franchisees; and (iii) hospitals and other medical institutions in rural areas in the Chengdu region in Sichuan province through a government-organized tender process for rural pharmaceutical distribution. We ranked third in China in terms of the number of franchise retail pharmacy stores under our "Pa Shun" brand as of December 31, 2013, according to NFS, an independent market research institution. We were one of the first companies to be engaged in rural pharmaceutical distribution in Chengdu, Sichuan province, and we ranked first in rural pharmaceutical distribution in the Chengdu region in terms of total sales for 2013, according to NFS.
- *Self-operated retail pharmacies.* As of December 31, 2014, we had a total of 27 self-operated retail pharmacy stores under our "Pa Shun" brand in operation, located in Sichuan province, Hebei province and Hubei province. In addition, we had seven self-operated retail pharmacy stores that were in the process of relocating.
- *Pharmaceutical manufacturing.* We manufacture and sell six pharmaceutical products, Zhenghonghua embrocation (正紅花油), Honghua embrocation (紅花油), Baihua embrocation (白花油), Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏), Antipruritic Ointment for Cicatrix (疤痕止癢軟化乳膏) and Ampicillin Capsules (氨苄西林膠囊). Our

FINANCIAL INFORMATION

self-manufactured Zhenghonghua embrocation had over 40% of the market share in the Zhenghonghua embrocation product category in China in 2011, 2012 and 2013 as measured by retail sales revenue, representing the largest market share in each year, according to NFS. Zhenghonghua embrocation in turn accounted for 0.06%, 0.05% and 0.05% of the total pharmaceutical product sales in China for 2011, 2012 and 2013, respectively, as measured by retail sales revenue, according to NFS.

BASIS OF PRESENTATION

We were incorporated in the Cayman Islands as a company with limited liability on May 3, 2011. Upon the completion of the Reorganization on December 30, 2011, as more fully described in the section headed “History and Corporate Structure” in this prospectus, we became the holding company of the various subsidiaries now comprising our Group. Our ultimate Controlling Shareholder is Mr. Chen. The principal activities of our subsidiaries are pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing.

All material intra-group transactions and balances have been eliminated on consolidation. Our financial information has been prepared in accordance with HKFRS, which includes all applicable individual HKFRSs and HKASs and Interpretations issued by the HKICPA. The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing our financial information, our Group has adopted all these new and revised HKFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective for the Track Record Period.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of external factors, including the following:

Growth of the PRC and Southwestern 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, total sales in the PRC pharmaceutical market were RMB809.7 billion, RMB955.5 billion, and RMB1,098.5 billion in 2011, 2012 and 2013, respectively and are projected to reach RMB1,653.4 billion by 2016. The rapid growth of the pharmaceutical market in the PRC has been driven by a number of favorable 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 aging of its population; (v) the increased rate of urbanization; and (vi) healthcare reform plans and other support provided by the PRC government.

According to NFS, the pharmaceutical market in southwestern China grew at a CAGR of 38.6% from 2008 to 2013. As an established pharmaceutical company in southwestern China, we are well positioned to capture the continuous, rapid growth of the PRC and the southwestern China pharmaceutical markets. However, if these pharmaceutical markets do not grow as rapidly as projected, our future turnover growth may be adversely affected.

FINANCIAL INFORMATION

PRC Government Policies and Regulations of Our Industry

We operate in a highly regulated industry. Government policies, regulations and their implementation and enforcement have historically had, and are expected to continue to have, a significant impact on the supply, demand and pricing of pharmaceutical products and distribution services in the PRC as well as on the competitive environment and the cost of compliance.

For example, in 2009, the PRC government launched a healthcare reform plan, investing a total of RMB850.0 billion from 2009 to 2011 to implement a series of programs under the ongoing healthcare reform plan. These programs 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 increases in the demand for pharmaceutical products. However, with the introduction of a more centralized statutory tender system and more stringent price controls over essential drugs, the PRC government also brought downward pricing pressure on pharmaceutical retailers and distributors.

Under the healthcare reform plan, customers who purchase products that are included in the National and Provincial Medical Insurance Drugs Catalogs are entitled to reimbursement of all or a portion of their purchases 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 Catalogs in the form of fixed retail prices, retail price ceilings and periodic downward price adjustments. In 2012, 2013 and 2014, sales of our pharmaceutical products included in the National and Provincial Medical Insurance Drugs Catalogs accounted for 24.3%, 18.6% and 27.6% of our turnover, respectively. Centralized procurement through the National List of Essential Drugs may lead to reductions in the price of drugs, which may be compensated by increases in sales volume. During the Track Record Period, price controls have not significantly affected our gross margin.

Business Acquisitions and the Expansion of Our Retail Network

The fragmented PRC pharmaceutical industry offers significant consolidation opportunities. As an established pharmaceutical company in southwestern China, we believe we are well positioned to achieve significant growth of our business through acquisitions. Historically, business acquisitions have contributed to the growth of our business and expansion of our retail network. Our major acquisitions include Chunshengtang in 2011 and Baixintang in 2013. As part of our plan to expand our self-operated retail network, we may consider acquiring additional retail pharmacy stores. In addition, we intend to actively pursue cooperation opportunities or strategic alliances with pharmaceutical companies to acquire advanced know-how to enhance our product portfolio. Furthermore, we may seek to acquire rights to pharmaceutical products that are complementary to our existing product portfolio through acquisitions of pharmaceutical companies with the right product portfolio.

FINANCIAL INFORMATION

We intend to continue to seek suitable targets for acquisition 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;
- The availability, terms and costs of any financing required to fund acquisitions or complete expansion plans; and
- The ability to integrate the acquired businesses and capitalize on the expected synergies arising from the integration.

As we expand our business through acquisitions, we may in the future incur significant goodwill impairment and amortization expenses on intangible assets, related business integration expenses and financing costs. As a result, our profit may be materially and adversely affected. We would incur impairment losses on goodwill if the acquired businesses fail to perform as expected. In addition, the intangible assets we consolidate from acquired businesses are subject to amortization, where appropriate. Our overall profitability may be negatively affected if the acquired business has a lower profit margin than ours. Furthermore, if we fund our business acquisitions by raising short-term debt, our debt to equity ratio and net current asset position may be materially and adversely affected.

Our Ability to Enhance Our Product Mix and Expand Our Product Portfolio

Our results of operations are affected by our product mix. As of December 31, 2014, we manufactured and sold six pharmaceutical products and sourced over 13,154 products from our suppliers, including prescription drugs, over-the-counter medicines and Chinese medicines, for sale in our pharmaceutical distribution and self-operated retail pharmacy businesses. The revenue and gross margin of each product we sell or distribute vary significantly. As a result, our ability to enhance our product portfolio with higher gross margin products is critical to our revenue and gross margin. We intend to continue to evaluate and adjust our product portfolio from time to time to focus more on products with higher gross margins and greater market demand to increase our overall profitability. To further broaden our product offerings and enhance our product mix, we may consider acquiring rights to new pharmaceutical products when suitable opportunities arise and use our equipment and production facilities to manufacture them.

Our Ability to Control Procurement Costs and Cost of Raw Materials

The cost of sourcing the products we distribute is the largest component of our cost of sales. As a result, our ability to control our procurement costs significantly affects the profitability of our pharmaceutical distribution and self-operated retail pharmacy segments. To control our procurement cost, we have adopted procurement policies and procedures, developed coordinated efforts for the purchase of merchandise by our subsidiaries and performed periodic internal audits to monitor their purchases.

FINANCIAL INFORMATION

Our profitability is affected by our ability to procure principal raw materials at commercially reasonable prices for our pharmaceutical manufacturing business. For the years ended December 31, 2012, 2013 and 2014, raw material costs accounted for 91.1%, 90.5% and 92.0%, respectively, of the total cost of sales of our pharmaceutical manufacturing segment. Apart from the effect of general inflation in the PRC, the prices of the majority of our raw materials were generally stable throughout this period. If there is a significant increase in the price of any principal raw material, and we cannot pass such increase on to customers due to government price controls or other reasons, the profitability of our pharmaceutical manufacturing segment may be materially and adversely affected.

The following table illustrates the sensitivity of our net profit for the years ended December 31, 2012, 2013 and 2014 in relation to movements in our cost of sales for pharmaceutical distribution for the respective periods.

	Year ended December 31,					
	2012		2013		2014	
	Change in net profit	%	Change in net profit	%	Change in net profit	%
		RMB		%		RMB
Changes in cost of sales for pharmaceutical distribution segment	Change in net profit	impact on net profit	Change in net profit	impact on net profit	Change in net profit	impact on net profit
	RMB	%	RMB	%	RMB	%
5% increase	(27,519)	(296)%	(30,305)	(48)%	(30,423)	(66)%
3% increase	(16,511)	(177)%	(18,183)	(29)%	(18,254)	(40)%
1% increase	(5,504)	(59)%	(6,061)	(10)%	(6,085)	(13)%
5% decrease	27,519	296%	30,305	48%	30,423	66%
3% decrease	16,511	177%	18,183	29%	18,254	40%
1% decrease	5,504	59%	6,061	10%	6,085	13%

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. We typically experience higher sales in the last quarter primarily due to the following: (i) our annual contracts with customers usually expire at the end of each year and they usually purchase additional products in the last quarter for stocking purposes as they expect prices to increase in the following year; and (ii) demands for products we distribute tend to be higher in the winter season as there are higher incidences of certain diseases when the weather is cold. We typically experience lower sales in the first quarter due to reduced business activities around Chinese New Year holidays and because our customers, particularly local pharmaceutical wholesalers, generally place some of their orders for first quarter consumption in the fourth quarter of the previous year.

Our operating results are also affected by the seasonally higher sales of certain of our pharmaceutical products, particularly our Zhenghonghua embrocation. We generally have higher sales of our Zhenghonghua embrocation during the summer due to insect bites and the winter as a result of higher incidences of arthritis and certain other illnesses as well as injuries due to cold weather. As a result, our inventory levels and trade and other payables are typically at higher levels before our peak sales period.

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the financial information in conformity with HKFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results may differ from these 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, if different accounting estimates could have been reasonably used or if changes in the accounting estimates could materially impact the consolidated financial statements. We believe the following accounting policies used in the preparation of our financial statements involve the most significant judgment and estimates.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

Sales of Goods

Revenue is recognized after the customer inspects and accepts the goods delivered to them, which is taken to be the point in time when the customers has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Interest Income

Interest income is recognized as it accrues using the effective interest method.

Rental Income from Operating Leases

Rental income receivable under operating leases is recognized in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

Franchise Fee Income

Franchise fee income is recognized on a time proportion basis over the term of the relevant agreements.

FINANCIAL INFORMATION

Government Grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized as deferred income and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Goodwill

Goodwill represents the excess of:

- i. the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- ii. the net fair value of the acquiree's identifiable assets and liabilities measured as of the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase. Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generated unit or groups of cash generating units that is expected to benefit from the synergies of the combination and is tested annually for impairment. On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

FINANCIAL INFORMATION

Impairment of Investment in Equity Securities and Other Receivables

Investment in equity securities and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to our attention about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its costs.

If any such evidence exists, any impairment loss is determined and recognized as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment loss for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (for instance, the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decrease and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

FINANCIAL INFORMATION

- For available-for-sale securities, the cumulative loss that has been recognized in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss. Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade receivables and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When we are satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

Impairment of trade receivables

We estimate the provision for impairment of trade receivables by assessing the recoverability based on credit history, the ageing of the trade receivables balance and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. We reassess the impairment allowances at the end of the reporting period.

Property, Plant and Equipment

Property, plant and equipment, other than investment property and construction in progress, are stated at cost less accumulated depreciation and impairment losses. Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings	20–30 years
— Leasehold improvements	The shorter of the lease term and their useful life of 3–10 years
— Machinery and equipment	5–10 years
— Furniture and other office equipment	3–10 years
— Motor vehicles	4–10 years

FINANCIAL INFORMATION

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction, and is stated at cost less impairment loss. Cost comprises direct costs of construction during the construction period. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially complete and ready for its intended use. No depreciation is provided in respect of construction in progress.

Convertible redeemable preferred shares

We elected to designate the convertible redeemable preferred shares with embedded derivatives as financial liability at fair value through profit or loss as they are contracts containing one or more embedded derivatives. They are initially recognized at fair value. Any directly attributable transaction costs are recognized as finance costs in the consolidated statements of profit or loss. Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognized in the profit or loss.

The convertible redeemable preferred shares are classified as non-current liabilities unless we have an obligation to settle the liability within twelve months after the end of the reporting period.

For the convertible redeemable preferred shares, there is no quoted price in an active market. The fair value of the convertible redeemable preferred shares is established by using valuation techniques. These techniques include discounted cash flow analysis and option pricing models. Valuation models established by the valuer use the discounted cash flow method to determine the underlying equity value of the Company and adopt an equity allocation method to determine the fair value of the convertible redeemable preferred shares. However, inputs to the valuation models, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions be changed, it may lead to a change in fair value of the convertible redeemable preferred shares.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The table below sets forth our selected consolidated statements of profit or loss information for the periods indicated:

Consolidated Statements of Profit or Loss

	Year ended December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	712,111	794,349	847,193
Cost of sales	(582,575)	(643,924)	(665,126)
Gross profit	129,536	150,425	182,067
Other revenue	10,379	14,612	20,672
Other net income/(loss)	354	33	(710)
Selling and distribution expenses	(33,380)	(35,990)	(36,468)
General and administrative expenses	(25,137)	(25,779)	(46,729)
Profit from operations	81,752	103,301	118,832
Finance costs	(3,453)	(5,855)	(9,013)
Impairment on goodwill	—	—	(4,714)
Change in fair value on convertible redeemable preferred shares	(51,881)	(16,134)	(33,236)
Profit before taxation	26,418	81,312	71,869
Income tax	(17,110)	(18,243)	(25,740)
Profit for the year	9,308	63,069	46,129
Attributable to:			
Equity shareholders of the Company	9,409	63,070	45,944
Non-controlling interests	(101)	(1)	185
Other comprehensive income for the year, net of nil income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside the PRC	1,713	5,396	(5,929)
Total comprehensive income for the year	<u>11,021</u>	<u>68,465</u>	<u>40,200</u>
Attributable to:			
Equity shareholders of the Company	11,122	68,466	40,015
Non-controlling interests	(101)	(1)	185
Total comprehensive income for the year	<u>11,021</u>	<u>68,465</u>	<u>40,200</u>
Adjusted profit for the year ⁽¹⁾	61,189	79,203	79,365

FINANCIAL INFORMATION

Note:

- (1) Adjusted profit for the year is derived by excluding the change in fair value on convertible redeemable preferred shares from profit for the year. Adjusted profit for the year is not a calculation based on HKFRS. The amounts included in the adjusted profit for the year calculation, however, are derived from amounts included in the consolidated income statement data. We have presented adjusted profit for the year data in this prospectus as we believe that adjusted profit for the year is a useful supplement to income statement data because it enables us to measure our profitability without taking into consideration of the non-cash change in fair value loss on convertible redeemable preferred shares which will be converted to our ordinary Shares upon Listing. We believe adjusted profit for the year is a more accurate indication of our profitability and operating performance for the Track Record Period and beyond. However, adjusted profit for the year should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with HKFRS, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted profit for the year measure presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

COMPONENTS OF OUR STATEMENTS OF PROFIT OR LOSS

Turnover

Turnover represents the sales of goods supplied to customers, net of sales tax, value-added tax and discounts. We derive our turnover from our three business segments: (i) pharmaceutical distribution; (ii) self-operated retail pharmacy stores; and (iii) pharmaceutical manufacturing. Our total turnover represents total segment revenue from our three business segments after elimination of inter-segment revenue. For the years ended December 31, 2012, 2013 and 2014, our total turnover was RMB712.1 million, RMB794.3 million and RMB847.2 million, respectively.

The following table sets out our turnover by business segment for the periods indicated:

	Year ended December 31,								
	2012			2013			2014		
	External revenue	Inter- segment revenue	Segment revenue	External revenue	Inter- segment revenue	Segment revenue	External revenue	Inter- segment revenue	Segment revenue
	<i>(RMB'000)</i>								
Segments:									
Pharmaceutical distribution	624,525	5,640	630,165	695,860	7,385	703,245	707,053	6,524	713,577
Self-operated retail pharmacies	7,831	—	7,831	17,626	—	17,626	29,352	—	29,352
Pharmaceutical manufacturing	79,755	30,281	110,036	80,863	24,511	105,374	110,788	22,136	132,924
Total:	712,111	35,921	748,032	794,349	31,896	826,245	847,193	28,660	875,853

FINANCIAL INFORMATION

The following table sets out the external revenue generated from outside customers of each business segment and the related gross profit and gross profit margin for the periods indicated:

	Year ended December 31,								
	2012			2013			2014		
	External revenue	Gross profit	Gross margin	External revenue	Gross profit	Gross margin	External revenue	Gross profit	Gross margin
	<i>(RMB'000, except percentages)</i>								
Segments:									
Pharmaceutical distribution	624,525	74,147	11.9%	695,860	89,755	12.9%	707,053	98,595	13.9%
Self-operated retail									
pharmacies	7,831	3,092	39.5%	17,626	5,621	31.9%	29,352	9,827	33.5%
Pharmaceutical									
manufacturing	79,755	52,297	65.6%	80,863	55,049	68.1%	110,788	73,645	66.5%
Total:	712,111	129,536		794,349	150,425		847,193	182,067	

Segment revenue represents total revenue generated by a business segment, including both revenue generated from external sales to outside customers and revenue generated from inter-segment sales to our other business segments. For purposes of understanding reasons for fluctuations in the performance of each business segment during the Track Record Period, we believe analysis based on segment revenue and its related gross profit and gross profit margin would present a more accurate picture than analysis based on external revenue and the related gross profit and gross profit margin. Due to variations in the allocation between external and internal sales from year to year, changes in external revenue may not reflect changes in the actual sales of a business segment. For example, segment revenue for the pharmaceutical manufacturing segment decreased from 2012 to 2013 as a result of decreases in the sales volume and average selling price of our Zhenghonghua embrocation, but external revenue of our pharmaceutical manufacturing segment increased during this period as a result of a decreased in internal sales. For the above reasons, we have presented our analysis below on the basis of segment revenue instead of external revenue.

FINANCIAL INFORMATION

Pharmaceutical Distribution

During the Track Record Period, our pharmaceutical distribution business generated turnover primarily from sales to (i) pharmaceutical wholesalers; (ii) franchise retail pharmacy stores operating under our “Pa Shun” brand; and (iii) hospitals and other medical institutions in rural areas. For the years ended December 31, 2012, 2013 and 2014, segment revenue of our pharmaceutical distribution business was RMB630.2 million, RMB703.2 million and RMB713.6 million, respectively. The increase in segment revenue from 2012 to 2013 was due to growth in our sales volume to pharmaceutical wholesalers and franchise retail pharmacy stores, which in turn was primarily driven by (i) the expansion of the coverage of our distribution network; (ii) the expansion and further diversification of our product portfolio; and (iii) the increased overall market demand for pharmaceutical products. Our sales to rural hospitals and other medical institutions decreased from 2012 to 2013 primarily as a result of certain policy changes promulgated in 2011 by the Food and Drug Bureau of Chengdu, Health and Family Planning Bureau of Chengdu (formerly known as Health Bureau of Chengdu), Development and Reform Commission of Chengdu and Bureau of Finance of Chengdu (成都市食品藥品監督管理局、成都市衛生局、成都市發展和改革委員會、成都市財政局) and implemented in late 2012, which allowed up to three companies to engage in rural pharmaceutical distribution in each city or district. As a result, other companies were able to enter into the rural pharmaceutical distribution business in some geographical regions where we had previously enjoyed exclusive distribution rights. The increase in segment revenue from 2013 to 2014 was due to (i) the continued growth in our sales to franchise retail pharmacy stores and (ii) the increase in sales to rural hospitals and other medical institutions as a result of the increase in our rural hospital and other medical institution customers due to our increased market development efforts, as partially offset by a decrease in sales to pharmaceutical wholesalers as a result of the decrease in our pharmaceutical wholesaler customers primarily resulting from the relocation of our warehouse and logistics center in 2014.

As of December 31, 2012, 2013 and 2014, we distributed 12,861, 15,803 and 13,154 products, respectively. As of the same dates, we had 1,296, 1,019 and 703 pharmaceutical wholesalers, 1,452, 1,397 and 1,422 franchise retail pharmacy stores under our “Pa Shun” brand, and 1,030, 647 and 562 rural hospitals and other medical institutions in our sales network.

Inter-segment revenue of our pharmaceutical distribution business mainly represents sales of pharmaceutical and other healthcare products by this segment to our self-operated retail pharmacies segment for resale. For the years ended December 31, 2012, 2013 and 2014, inter-segment revenue of our pharmaceutical distribution business was RMB5.6 million, RMB7.4 million and RMB6.5 million, respectively, representing 0.9%, 1.1% and 0.9% of segment revenue for the same periods.

FINANCIAL INFORMATION

The following table sets forth a breakdown of external revenue of our pharmaceutical distribution segment by customer type for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	Amount	% of external revenue	Amount	% of external revenue	Amount	% of external revenue
	<i>(RMB'000, except percentages)</i>					
Pharmaceutical wholesalers	419,207	67.1	480,384	69.0	446,018	63.1
Franchise retail pharmacy stores . .	96,499	15.5	148,152	21.3	173,189	24.5
Rural hospitals and other medical institutions	108,819	17.4	67,324	9.7	87,846	12.4
Total external revenue of pharmaceutical distribution. . .	624,525	100.0	695,860	100.0	707,053	100.0

Self-operated Retail Pharmacies

Our self-operated retail pharmacies business generates turnover primarily from sales of pharmaceutical and healthcare products, cosmetic products and daily necessities at retail pharmacy stores operated by us. For the years ended December 31, 2012, 2013 and 2014, segment revenue from our self-operated retail pharmacies segment was RMB7.8 million, RMB17.6 million and RMB29.4 million, respectively. We did not have any inter-segment revenue from our self-operated retail pharmacies segment for the same periods. The increase in segment revenue during these periods was primarily due to (i) increase in the number of our self-operated retail pharmacy stores as a result of organic growth and acquisition of Baixintang in December 2013; (ii) our opening of a total of five large Japanese-style cosmeceutical stores with our strategic partner V-drug in 2012 and 2013; and (iii) our expanded product offerings that better meet the demand of our target customers, which resulted in growth of same-store sales. Baixintang's contribution to our revenue was immaterial for 2013 as we acquired Baixintang on December 26, 2013, while for 2014 we consolidated Baixintang's results for the whole year.

The following table sets forth a breakdown by store type of revenue generated from the self-operated retail pharmacies segment:

Store type	Year ended December 31		
	2012	2013	2014
	<i>(RMB'000)</i>		
Regular self-operated retail pharmacy stores . .	7,583	14,794	24,651
Japanese-style cosmeceutical stores.	248	2,832	4,701

FINANCIAL INFORMATION

Pharmaceutical Manufacturing

Our pharmaceutical manufacturing business generates turnover primarily from the sales of the six products we manufacture at our own production facilities, which are Zhenghonghua embrocation (正紅花油), Honghua embrocation (紅花油), Baihua embrocation (白花油), Compound Dexamethasone Acetate Cream (複方醋酸地塞米松乳膏), Antipruritic Ointment for Cicatrix (疤痕止癢軟化乳膏) and Ampicillin Capsules (氨苄西林膠囊). For the years ended December 31, 2012, 2013 and 2014, segment revenue of our pharmaceutical manufacturing business was RMB110.0 million, RMB105.4 million and RMB132.9 million, respectively. Inter-segment revenue of our pharmaceutical manufacturing business mainly represents internal sales of our self-manufactured products by our pharmaceutical manufacturing business to our pharmaceutical distribution business for resale. For the years ended December 31, 2012, 2013 and 2014, inter-segment revenue of our pharmaceutical manufacturing business was RMB30.3 million, RMB24.5 million and RMB22.1 million, respectively, representing 27.5%, 23.3% and 16.7% of segment revenue for the same periods.

Segment revenue decreased from 2012 to 2013 primarily due to a decrease in sales amount derived from our Zhenghonghua embrocation as a result of slight decreases in both its sales volume and average selling price. Segment revenue increased from 2013 to 2014 primarily due to our expanded markets and revenue generated from the new markets.

The following table sets forth the sales volume, average selling price and total sales amount for each of our self-manufactured products for the periods indicated:

	2012			2013			2014		
	Total Sales	Average	Volume	Total Sales	Average	Volume	Total Sales	Average	Volume
	Amount	Selling Price		Amount	Selling Price		Amount	Selling Price	
(grams)	(RMB'000)	(RMB)	(grams)	(RMB'000)	(RMB)	(grams)	(RMB'000)	(RMB)	
Zhenghonghua embrocation . . .	588,339,954	82,607	0.14	596,760,175	79,003	0.13	750,393,587	103,011	0.14
Honghua embrocation.	38,589,642	20,731	0.54	38,562,199	20,440	0.53	40,124,754	21,311	0.53
Baihua embrocation	1,662,739	680	0.41	502,229	193	0.38	1,116,671	431	0.39
Ampicillin capsules	10,024,260	5,361	0.53	9,918,336	4,746	0.48	16,004,100	7,776	0.49
Antipruritic ointment for									
Cicatrix	768,120	528	0.69	960,000	821	0.86	-	-	-
Compound Dexamethasone									
Acetate cream	1,635,900	129	0.08	5,153,200	171	0.03	5,980,480	395	0.07
Segment revenue	110,036			105,374			132,924		

Cost of Sales, Gross Profit and Gross Margin

For the years ended December 31, 2012, 2013 and 2014, our total cost of sales was RMB582.6 million, RMB643.9 million and RMB665.1 million, respectively, and our total gross profit was RMB129.5 million, RMB150.4 million and RMB182.1 million, respectively. Our gross margin was 18.2%, 18.9% and 21.5%, respectively, for the same periods.

FINANCIAL INFORMATION

The following table sets out breakdowns of our turnover, cost of sales, gross profit and gross margin by business segment for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	Amount	% of segment revenue	Amount	% of segment revenue	Amount	% of segment revenue
	<i>(in RMB'000, except percentages)</i>					
Segments:						
Pharmaceutical distribution:						
Segment revenue	630,165	100.0%	703,245	100.0%	713,577	100.0%
Segment cost of sales	(568,548)	(90.2)%	(623,327)	(88.6)%	(623,317)	(87.3)%
Segment gross profit	61,617	9.8%	79,918	11.4%	90,260	12.7%
Self-operated retail pharmacies:						
Segment revenue	7,831	100.0%	17,626	100.0%	29,352	100.0%
Segment cost of sales	(5,067)	(64.7)%	(12,211)	(69.3)%	(19,848)	(67.6)%
Segment gross profit	2,764	35.3%	5,415	30.7%	9,504	32.4%
Pharmaceutical manufacturing:						
Segment revenue	110,036	100.0%	105,374	100.0%	132,924	100.0%
Segment cost of sales	(41,319)	(37.6)%	(38,889)	(36.9)%	(50,300)	(37.8)%
Segment gross profit	68,717	62.4%	66,485	63.1%	82,624	62.2%

Pharmaceutical Distribution

The principal components of cost of sales for our pharmaceutical distribution segment primarily consist of cost of products purchased, other taxes primarily including urban construction tax. Segment cost of sales was RMB568.5 million, RMB623.3 million and RMB623.3 million for the years ended December 31, 2012, 2013 and 2014, respectively. The increase in segment cost of sales from 2012 to 2013 was primarily as a result of the growth in our pharmaceutical distribution sales. Segment cost of sales remained stable from 2013 to 2014 while revenue increased primarily because the increase in segment revenue was primarily due to the increase in sales to franchise retail pharmacy stores and hospitals and other medical institutions in rural areas, which had a relatively higher profit margin, and sales to pharmaceutical wholesalers, which had lower profit margin, decreased during this period. As a result, the total segment cost remained stable while segment revenue increased.

For the years ended December 31, 2012, 2013 and 2014, segment gross profit for our pharmaceutical distribution segment was RMB61.6 million, RMB79.9 million and RMB90.3 million, respectively. Our segment gross margin was 9.8%, 11.4% and 12.7%, respectively, for the three years ended December 31, 2012, 2013 and 2014. The increase in segment gross margin from 2012 to 2014 was primarily due to (i) greater discounts to product procurement prices we were able to obtain from suppliers as a result of our increased purchase volumes and our increased payment of deposits; and (ii) our sales of products with higher gross margins to franchise retail pharmacy stores following the implementation of the “Remote Prescription Review” system in January 2014.

Self-operated Retail Pharmacies

The principal components of cost of sales for our self-operated retail pharmacies segment primarily consist of cost of products purchased, other taxes primarily including urban construction tax. Segment

FINANCIAL INFORMATION

cost of sales was RMB5.1 million, RMB12.2 million and RMB19.8 million for the years ended December 31, 2012, 2013 and 2014, respectively. The increase in segment cost of sales during the Track Record Period was mainly due to our growth in sales, which in turn was mainly a result of increase in the number of our self-operated retail pharmacy stores.

For the years ended December 31, 2012, 2013 and 2014, segment gross profit for our self-operated retail pharmacies segment was RMB2.8 million, RMB5.4 million and RMB9.5 million, respectively. The increase in segment gross profit during the Track Record Period was primarily due to increases in same store sales and the total number of our self-operated retail pharmacy stores. Our segment gross margin was 35.3%, 30.7% and 32.4%, respectively, for the three years ended December 31, 2012, 2013 and 2014. The decrease in segment gross margin from 2012 to 2013 was primarily due to the addition of three Japanese-style cosmeceutical stores in 2013 as these stores have lower average gross profit margins compared with our other self-operated retail pharmacy stores. We open and operate the Japanese-style cosmeceutical stores together with our business partner, V-drug and its parent company Chubu Yakuhin Co., Ltd., which provide their advanced management methods and retail operational expertise in our collaboration. We source products to be sold in these stores from V-drug's subsidiary, V-drug Chengdu. The products we sell through the Japanese-style cosmeceutical stores generate greater turnover due to large sales volumes as a result of market demand, although they generally have lower average gross profit margins compared to pharmaceutical products at our other self-operated retail pharmacy stores primarily due to relatively lower gross margin of the daily necessities. The increase in segment gross margin from 2013 to 2014 was primarily because we closed one Japanese-style cosmeceutical store and suspended the operations of another one due to relocation. These stores have lower average gross profit margins compared with our other self-operated retail pharmacy stores.

For the years ended December 31, 2012, 2013 and 2014, we incurred operating losses of RMB1.7 million, RMB6.1 million and RMB5.0 million, respectively, for our self-operated retail pharmacies segment. Operating profit or loss for the self-operated retail pharmacies segment is calculated by deducting operating expenses, including rental costs, salaries and benefits for related personnel and depreciation and amortization expenses, from the segment gross profit. We incurred operating losses for the self-operated retail pharmacies segment during the Track Record Period primarily because (i) our Japanese-style cosmeceutical stores have relatively low gross profit margins; and (ii) our Japanese-style cosmeceutical stores generally have high fixed costs because they are located in premium commercial areas where average rental costs are high, they have large store areas which require more fixtures and decorations as well as more rental expenses, and they have large sales teams. As a result of their significantly higher rental costs, depreciation and amortization expenses and staff costs, the expected profit and loss breakeven period for Japanese-style cosmeceutical stores is much longer than that for our other self-operated retail pharmacy stores. In addition, our other retail pharmacy stores generally require a certain period of time to become profitable, as a store requires a ramp-up period to gradually establish a customer base and increase sales and gross profit to cover its operating expenses.

FINANCIAL INFORMATION

The following table sets forth a breakdown by store type of the cost of sales, gross profit, gross margin and operating profit/(loss) of our self-operated retail pharmacies segment for the periods indicated:

	Year ended December 31,											
	2012				2013				2014			
	Cost of Sales	Gross Profit	Gross Margin	Operating Profit/ (loss)	Cost of Sales	Gross Profit	Gross Margin	Operating Profit/ (loss)	Cost of Sales	Gross Profit	Gross Margin	Operating Profit/ (loss)
	<i>(in RMB'000, except percentages)</i>											
Regular self-operated retail pharmacy stores	4,921	2,662	35.1%	(847)	9,935	4,859	32.8%	(1,203)	16,546	8,105	32.9%	(447)
Japanese-style cosmeceutical stores	146	102	41.0%	(869)	2,276	556	19.6%	(4,946)	3,302	1,399	29.8%	(4,520)

Japanese-style cosmeceutical stores generally have lower gross margins compared with our regular self-operated retail pharmacy stores primarily due to the relatively low gross margin of the daily necessities products we sell only at Japanese-style cosmeceutical stores. The gross margin for Japanese-style cosmeceutical stores for 2012 was higher than regular self-operated retail pharmacy stores because we opened our first two Japanese-style cosmeceutical stores in November 2012 and they did not sell daily necessities products in 2012.

We incurred operating losses for the self-operated retail pharmacies segment during the Track Record Period primarily because (i) our Japanese-style cosmeceutical stores have relatively low gross profit margins as a result of the product portfolio they carry and they have high fixed costs because they are located in premium commercial areas where average rental costs are high, they have large store areas which require more fixtures and decorations as well as more rental expenses, and they have large sales teams; and (ii) our regular self-operated retail pharmacy stores located in Chengdu incurred operating losses during the Track Record Period primarily because (A) those stores are located in premium commercial areas with relatively high rental costs; and (B) certain government road construction projects restricted access to some of those stores since the beginning of 2013 and caused pedestrian traffic around them to decline.

Pharmaceutical Manufacturing

The principal components of cost of sales for our pharmaceutical manufacturing segment primarily consist of cost of raw materials, labor costs, production overhead including depreciation expenses, utilities and consumables. Our segment cost of sales was RMB41.3 million, RMB38.9 million and RMB50.3 million for the years ended December 31, 2012 and 2013 and 2014, respectively. The decrease in segment cost of sales from 2012 to 2013 was primarily due to (i) decreases in the average purchase prices of our raw materials; and (ii) our enhanced cost control measures that led to improved production efficiency and lower production overhead costs. The increase in segment cost of sales from 2013 to 2014 was primarily due to the increase in sales.

FINANCIAL INFORMATION

For the years ended December 31, 2012, 2013 and 2014, segment gross profit for our pharmaceutical manufacturing segment was RMB68.7 million, RMB66.5 million and RMB82.6 million, respectively. Our segment gross margin was 62.4%, 63.1% and 62.2%, respectively, for the three years ended December 31, 2012, 2013 and 2014. The increase in segment gross margin from 2012 to 2013 was primarily due to decreases in the purchase prices of our raw materials. The decrease in segment gross margin from 2013 to 2014 was primarily due to increase in average raw material costs. During the Track Record Period, prices for raw materials used in our pharmaceutical manufacturing fluctuated slightly due to changes in market demand and supply.

The following table sets forth the gross profit and gross profit margin for each of our self-manufactured products for the periods indicated:

	Year ended December 31,					
	2012		2013		2014	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>	<i>(RMB'000)</i>	<i>(%)</i>
Zhenghonghua						
embrocation	52,206	63.2	49,235	62.3	63,108	61.3
Honghua embrocation.	13,994	67.5	14,805	72.4	16,061	75.4
Baihua embrocation . .	267	39.2	68	35.2	140	32.5
Ampicillin capsules . .	2,441	45.5	1,861	39.2	3,331	42.8
Antipruritic ointment						
for Cicatrix	(249)	(47.2)	555	67.6	–	–
Compound						
Dexamethasone						
Acetate cream.	58	45.2	(39)	(22.9)	(16)	(4.1)

In 2012, we had a gross loss for antipruritic ointment for Cicatrix because this product was relatively new to the market and we incurred expenditures to improve the production technology and process for this product. We had a gross profit for this product for the year ended December 31, 2013 after we completed the technology upgrade. We did not manufacture this product in 2014 because there was not sufficient market demand and we decided to focus our resources on our more profitable product lines.

We had gross losses for Compound Dexamethasone Acetate cream for the years ended December 31, 2013 and 2014 because this product did not generate sufficient purchase orders. We produced a small amount in 2012 and 2013 to fill in specific orders by our large pharmaceutical distribution customers to maintain customer relationships and help facilitate the sales of other pharmaceutical products. We did not produce this product in 2014 but recorded sales for it for 2014 because a small amount of this product was produced in 2013 but sold in 2014.

FINANCIAL INFORMATION

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of salary, welfare and benefits, transportation and travelling related expenses, rent and management fees, promotional expenses, depreciation and amortization expenses, office, utilities and business related expenses, and professional and consulting service fees. Salary, welfare and benefits represent compensation for our staff engaged in sales and distribution. Transportation and travelling related expenses represent transportation costs that we were responsible for in connection with delivery of our products, and travelling expenses our sales and distribution personnel incurred. Rent and management fees represent rent and management fees we paid for self-operated retail pharmacy stores. Promotional expenses represent expenses we incurred for the promotion of our brand and our business, primarily including advertising expenses and other marketing expenses. Depreciation and amortization primarily represent depreciation expenses in connection with the interior decoration of our self-operated retail pharmacy stores. Office, utilities and business related expenses primarily consist of insurance premiums, telecommunication expenses, and conference expenses. Professional and consulting service fees represent fees we paid for professional and consulting services relating to marketing strategies for our self-operated retail pharmacy stores. For the years ended December 31, 2012, 2013 and 2014, our selling and distribution expenses amounted to RMB33.4 million, RMB36.0 million and RMB36.5 million, respectively, representing 4.7%, 4.5% and 4.3% of our turnover for the same periods. Decreases in our selling and distribution expenses as a percentage of our turnover during these periods were mainly due to consolidation of our sales teams that led to a reduced number of sales personnel, resulting in lower salary, welfare and benefits as well as office, utilities and business related expenses.

The following table sets forth a breakdown of the major components of our selling and distribution costs for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Salary, welfare and benefits	15,096	13,789	10,252
Transportation and travelling	5,832	6,658	6,218
Rent and management fees	2,331	6,292	7,284
Promotional expenses	6,052	4,394	5,607
Depreciation and amortization	933	2,117	4,664
Office, utilities and business related expenses	2,783	2,505	1,869
Professional and consulting service fees	227	60	85
Others	126	175	489
Total	33,380	35,990	36,468

FINANCIAL INFORMATION

General and Administrative Expenses

Our general and administrative expenses primarily consist of salary, welfare and benefits, provision for bad debts, rent and management fees, depreciation and amortization, professional and audit fees, travelling and business entertainment expenses, tax expenses and office, utilities and business related expenses. Salary, welfare and benefits represent compensation for our staff engaged in general and administrative functions. Provision for impairment of trade receivables represents provision we made for trade and other receivables that were more than twelve months overdue. For details relating to the provision for impairment of trade receivables, please see “— Selected Consolidated Statement of Financial Position Information — Trade and Other Receivables”. Rent and management fees primarily represent rent and management fees we paid for our office space at our corporate headquarters in Chengdu, Sichuan province and administrative offices of Chunshengtang in Shijiazhuang, Hebei Province. Depreciation and amortization expenses primarily consist of depreciation expenses for our warehouses, factory and interior decoration of our administrative offices. Professional and audit fees represent fees we paid to professional parties in connection with our proposed initial public offering of our Shares. Traveling and business entertainment expenses primarily represent traveling expenses and entertainment expenses for business purposes. Tax expenses primarily consist of stamp duty and vehicle use tax. Office, utilities and business related expenses primarily consist of office administrative expenses, utilities and insurance premiums, telecommunication charges and conference expenses. For the years ended December 31, 2012, 2013 and 2014, our general and administrative expenses amounted to RMB25.1 million, RMB25.8 million and RMB46.7 million, respectively, representing 3.4%, 3.1% and 5.5% of our turnover for the same periods. Our general and administrative expenses decreased from 3.4% of our turnover for the year ended December 31, 2012 to 3.1% for the year ended December 31, 2013 primarily because our professional and audit fees decreased from RMB6.3 million for 2012 to RMB2.7 million for 2013. We incurred significant professional and audit fees in 2012 in preparation for our proposed initial public offering and listing on the Stock Exchange of Hong Kong, which progressed at a much slower pace for most of 2013 until it accelerated again near the end of 2013. As a result, our professional and audit fees decreased significantly from 2012 to 2013. Our general and administrative expenses increased significantly from 3.1% of our turnover for the year ended December 31, 2013 to 5.5% for the year ended December 31, 2014 primarily due to (i) an increase in the professional and audit fees in connection with our proposed listing on the Stock Exchange; (ii) an increase in salary, welfare and benefits as a result of recruitment of senior management and licensed pharmacists and higher salary levels in general; (iii) an increase in the rent paid for our offices and warehouses as a result of increased total floor area; (iv) an increase in depreciation and amortization primarily relating to our new warehouse, logistics center and offices; and (v) an increase in others due to the increase in license transfer registration fees as a result of the increase in the number of our licensed pharmacists and increased software license fees, which were partially offset by a decrease in provision for impairment of trade and other receivables.

FINANCIAL INFORMATION

The table below sets forth a breakdown of our general and administrative expenses for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Salary, welfare and benefits	8,178	9,794	13,197
Provision for impairment of trade and other receivables	1,400	3,557	1,093
Rent and management fees	1,599	1,427	4,680
Depreciation and amortization	1,954	1,677	4,912
Professional and audit fees	6,346	2,720	11,816
Travelling and business entertainment expenses	1,886	1,924	3,283
Tax expenses	1,062	1,577	1,836
Office, utilities and business related expenses	2,207	2,308	3,118
Others	505	795	2,794
Total	25,137	25,779	46,729

Other Revenue

Other revenue primarily consists of franchise fees, bank interest income, rental income, deferred income and fees for value-added services provided to our suppliers. We collect franchise fees from the franchise retail pharmacy stores operating under our “Pa Shun” brand. Franchise fees consist of a fixed amount of entry fee and fees we charge for services we provide to franchisees, such as training in product knowledge and sales and marketing. During the Track Record Period, our franchise fees increased significantly primarily because of (i) an expansion in the services we provided to our franchisees and increases in the costs of such services; and (ii) an increase in the number of our franchise retail pharmacy stores. Rental income represents rent we collect for lease of concession store space in our Healthcare Product Outlet to retailers. Our rental income was much lower in 2012 compared with other years during the Track Record Period primarily because we used some of the storage space we had previously leased to retailers and due to lack of storage space these retailers also reduced the concession store space they leased from us. Our deferred income mainly represents government compensation relating to the relocation cost of our factory with respect to the exchange of land use rights with the local government. The compensation is recognized as deferred income on a straight-line basis over the expected useful of the land use rights.

FINANCIAL INFORMATION

The table below sets forth a breakdown of our other revenue for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Franchise fees	6,955	10,884	13,812
Bank interest income	425	268	1,715
Rental income	965	1,418	1,317
Deferred income — government grant	882	882	882
Others ⁽¹⁾	1,152	1,160	2,946
Total	10,379	14,612	20,672

Note:

- (1) Others primarily includes fees for value-added services provided to our suppliers, such as advertisement fees and conference fees we receive from suppliers at our supplier conferences, and revenue from sales of uniforms, stationery and furniture to franchise retail pharmacy stores.

Other Net Income/(Loss)

Other net income/(loss) primarily consists of (i) loss on disposal of property, plant and equipment, which included loss on disposal of property, plant and equipment in 2014 relating to the relocation of one Japanese-style cosmeceutical store and losses on disposal of property, plant and equipment which primarily consisted of equipment near the end of useful life; (ii) gain on disposal of our subsidiary Sichuan Pengsen in 2012; (iii) net foreign exchange gains/losses; (iv) reversal of impairment of trade receivables; and (v) recovery of other receivables written off in prior years. For the years ended December 31, 2012 and 2013, our other net income was RMB0.4 million and RMB33,000, respectively. For the year ended December 31, 2014, we incurred other net loss of RMB0.7 million.

FINANCIAL INFORMATION

The table below sets forth a breakdown of our other net income/(loss) for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Loss on disposal of property, plant and equipment	(81)	(32)	(1,992)
Gain on disposal of a subsidiary	392	—	—
Net foreign exchange gain/(loss)	43	(2)	—
Reversal of impairment of trade receivables . .	—	—	1,239
Recovery of other receivables written off in prior years	—	67	43
	<u>354</u>	<u>33</u>	<u>(710)</u>

Finance Costs

Finance costs consist of interest on bank borrowings, bills charges which represent discount costs we incurred for pledging bills for cash prior to their maturity, and other bank charges. Our finance costs increased significantly during the Track Record Period primarily because of the increase in our average outstanding bank borrowings during the year and increases in interest rates which resulted in interest payment increases, and costs relating to discounting bills. Our costs relating to discounting bills increased significantly during the Track Record Period primarily because we increased our pledge of bills for cash prior to their maturity. From 2012 to 2013, we increased our pledge of bills as a result of the decrease in turnover from our rural pharmaceutical distribution business, which was primarily settled in cash. From 2013 to 2014, we increased our pledge of bills primarily because of the increase in our cash outflows, including repayment of bank borrowings, interior decoration of warehouses and retail pharmacy stores and equipment purchases. Compared with bank loans, pledging bills for cash does not require guarantees. We believe pledging bills is a more efficient means of providing flexible cash financing for our operating and investing activities.

The table below sets forth a breakdown of our finance costs for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Total interest expense on financial liabilities not at fair value through profit or loss:			
Interest on bank borrowings wholly repayable within 5 years	2,868	4,114	4,820
Bills charges	49	1,293	3,642
Other bank charges	536	448	551
Total	<u>3,453</u>	<u>5,855</u>	<u>9,013</u>

FINANCIAL INFORMATION

Impairment on Goodwill

We recognize impairment on goodwill when the recoverable amount of the cash-generating units is lower than the carrying amount. We recognized RMB4.7 million of impairment on goodwill as of December 31, 2014, which related solely to our self-operated retail pharmacy stores under Baixintang. The recoverable amount of the cash-generating units of Baixintang is determined based on value-in-use calculations, which use cash flow projections based on financial budgets approved by management. Cash flows beyond the selected period are extrapolated using an estimated constant growth rate. The cash flows are discounted using a pre-tax discount rate based on our weighted average cost of capital and reflecting the specific risks relating to the cash-generating units. Key assumptions used for the value-in-use calculations are the gross margins and growth rates, which are determined by management based on past performance and its expectations for future market development.

In our valuation of goodwill as of December 31, 2014, our management adjusted the gross margins and growth rates used in the value-in-use calculations because the actual 2014 operating results of the relevant self-operated retail pharmacy stores were lower than previously expected. In addition, we adjusted the cash flow discount rate higher due to the higher cost of capital in the market. Based on the value-in-use calculations under these revised assumptions, the recoverable amount of the cash-generating units under Baixintang was lower than their carrying amount as of December 31, 2014 and, as a result, we recognized impairment on goodwill in the amount of RMB4.7 million relating to Baixintang. We did not recognize any impairment on goodwill as of December 31, 2013 because the recoverable amount was still higher than the carrying amount as of December 31, 2013. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

Change in Fair Value on Convertible Redeemable Preferred Shares

Change in fair value on convertible redeemable preferred shares relate to adjustments to the fair value of the Series A Preferred Shares we issued to Hong Kong Investments Group Limited and the Series B Preferred Shares, issued to V-drug.

We designate the Preferred Shares as financial liability at fair value through profit or loss. The Preferred Shares are initially recognized at fair value. Subsequent to initial recognition, the Preferred Shares are carried at fair value with changes in fair value recognized in the profit or loss.

The investors' subscriptions to Series A and Series B Preferred Shares were completed in February 2012, when the initial fair value of the Preferred Shares was established. As our business grew subsequently and we anticipated further expansion leading to an initial public offering of our Shares, the fair value of the Preferred Shares increased significantly between February 2012 and December 31, 2012, when the fair value of the Preferred Shares was next appraised based on our business plan. As a result, we recorded adjustments in the amount of RMB51.9 million for 2012. The fair value of the Preferred Shares did not increase as much between December 31, 2012 and December 31, 2013 because there were only minor revisions to our business plan and we were in progress towards achieving an initial public offering when we appraised the fair value of the Preferred Shares again on December 31, 2013. As a result, we recorded adjustments in the amount of RMB16.1 million for 2013. The fair value of the Preferred Shares increased significantly between December 31, 2013 and December 31, 2014 primarily due to the forecasted significant improvement in our future results of operations based on the 2014 results we were able to achieve. As a result, we recorded adjustments in the amount of RMB33.2 million for the year ended December 31, 2014.

FINANCIAL INFORMATION

Income Tax Expense

The table below sets forth the components of our income tax expense for the periods indicated:

	Year ended December 31,		
	2012	2013	2014
	<i>(in RMB'000, except percentages)</i>		
Profit before taxation	26,418	81,312	71,869
Current tax — PRC Corporation			
Income Tax			
Provision for the year	18,161	19,465	26,624
Deferred tax			
Origination and reversal of temporary differences	(1,051)	(1,222)	(884)
Income tax expense	17,110	18,243	25,740
Effective tax rate after adjustment	64.8%	22.4%	35.8%
Notional tax on profit before taxation	15,361	18,579	22,550
Notional tax rate	58.1%	22.8%	31.4%
Adjusted profit before taxation ⁽¹⁾	78,299	97,446	105,105
Adjusted notional tax rate	19.6%	19.1%	21.5%

Note:

- (1) Adjusted profit before taxation is derived by excluding the change in fair value on convertible redeemable preferred shares from profit before taxation. Adjusted profit before taxation is not a calculation based on HKFRS. The amounts included in the adjusted profit before taxation calculation, however, are derived from amounts included in the consolidated income statement data. We have presented adjusted profit before taxation data in this prospectus as we believe that adjusted profit before taxation is a useful supplement to income statement data because it enables us to measure our profitability and present more accurately the statutory income tax we are subject to without taking into consideration of the non-cash change in fair value loss on convertible redeemable preferred shares which will be converted to our ordinary Shares upon Listing. We believe adjusted profit before taxation is a more accurate indication of our profitability and operating performance for the Track Record Period and beyond. However, adjusted profit before taxation should not be considered in isolation or construed as an alternative to net income or operating income, or as an indicator of our operating performance or other consolidated operations or cash flow data prepared in accordance with HKFRS, or as an alternative to cash flow as a measurement of liquidity. Potential investors should be aware that the adjusted profit before taxation measure presented in this prospectus may not be comparable to similarly titled measures reported by other companies due to differences in the components of the calculation.

FINANCIAL INFORMATION

Income tax consists of current tax and movements in deferred tax asset and liabilities.

Current tax

Current tax is the expected tax payable on the taxable income for the relevant reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous reporting periods.

We are not subject to any income tax in the Cayman Islands or the BVI pursuant to the rules and regulations of those jurisdictions. We did not have any expenses with respect to the Hong Kong profits tax for the years ended December 31, 2012, 2013 and 2014 as we had no estimated assessable profit during these years. Our subsidiaries, Chengdu Kexun and Chengdu Pashun Chain Store, are subject to a 25% corporate income tax rate on the taxable income or under the deemed profit method as determined in accordance with the relevant PRC income tax rules and regulations. Chengdu Pashun is subject to corporate income tax at a rate of 15% from January 1, 2011 to December 31, 2020 under the Notice on Taxation Policy Issues concerning the In-depth Implementation of the Western Development Strategy (Cai Shui [2011] No. 58) because it is in the manufacturing business.

Our income tax expense was RMB17.1 million, RMB18.2 million and RMB25.7 million, respectively, for the years ended December 31, 2012, 2013 and 2014. Our effective tax rate for the years ended December 31, 2012, 2013 and 2014 was 64.8%, 22.4% and 35.8%, respectively. Our effective tax rates for 2012 and 2014 were significantly higher compared to 2013 primarily because our profit before taxation for 2012 and 2014 were reduced significantly by higher non-cash charges for change in fair value on convertible redeemable preferred shares compared to 2013.

During the Track Record Period, we paid all relevant taxes and as of the Latest Practicable Date, we do not have any disputes or unresolved tax issues with the relevant tax authorities.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of tax assets and tax liabilities in the financial statements and the corresponding tax basis and is accounted for using the liability method. Aside from certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that future taxable profits will be available against which the asset can be recognized. Deferred tax assets and liabilities are determined at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and regulations that have been enacted or substantively enacted at the relevant balance sheet date.

Notional tax on profit before taxation

Notional tax represents the tax calculated based on the assumption that our profit before taxation is taxed at the statutory tax rates for the jurisdictions in which we have operations. Our notional tax rates for the years ended December 31, 2012, 2013 and 2014 were 58.1%, 22.8% and 31.4%, respectively. Our notional tax rates are high compared to the statutory rates primarily because our profit before taxation was calculated after deducting our Company's loss, which was mainly due to non-cash negative changes in fair value on convertible redeemable preferred shares. If we use our adjusted profit before taxation,

FINANCIAL INFORMATION

which is derived by excluding the change in fair value on convertible redeemable preferred shares from our profit before taxation, to calculate the notional tax, our notional tax rates on such adjusted profit before taxation would have been 19.6%, 19.1% and 21.5%, respectively.

Non-Controlling Interests

Non-controlling interests represent the interests not held by us in the results of operations and net assets of our non-wholly-owned subsidiaries. Mr. Chan Chun Ming, a son of Mr. Chen, owned a 40% interest in Pashun HK until he transferred all such interest to Mr. Chen on December 23, 2011, upon which Pashun HK became wholly-owned by Mr. Chen. In November 2011, our Group acquired an 80% equity interest in Chunshengtang from its shareholders. The remaining 20% interest in Chunshengtang have been owned by Mr. Su Si (18%) and Ms. Liu Xiaohui (2%). Non-controlling interests represent the minority interests owned by Mr. Chan Chun Ming, Mr. Su Si and Ms. Liu Xiaohui during the relevant periods.

Exchange Differences on Translation of Financial Statements of Entities outside the PRC

Results of operations of our entities outside the PRC, which consist of our Company, Pashun BVI and Pashun HK, all of which are investment holding companies, are translated into the RMB at exchange rates approximating the foreign exchange rates prevailing as of the dates of the relevant transactions. Statements of financial position items are translated into the RMB at the foreign exchange rates as of the end of each reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Turnover

Our total turnover increased by 6.7% from RMB794.3 million for the year ended December 31, 2013 to RMB847.2 million for the year ended December 31, 2014. This increase was due to growth in turnover from each of our three business segments.

Pharmaceutical Distribution

Segment revenue increased by 1.5% from RMB703.2 million for the year ended December 31, 2013 to RMB713.6 million for the year ended December 31, 2014. This increase was primarily due to (i) increase in our sales to franchise retail pharmacy stores due to the implementation of “Remote Prescription Review” and growth in same-store sales; and (ii) increase in our sales to hospitals and other medical institutions in rural areas as a result of our increased market development efforts, as partially offset by the decrease in our sales to pharmaceutical wholesalers as a result of the decrease in the number of our pharmaceutical wholesaler, customers and the relocation of our warehouse and logistics center in 2014.

FINANCIAL INFORMATION

Self-operated Retail Pharmacies

Segment revenue increased by 67.0% from RMB17.6 million for the year ended December 31, 2013 to RMB29.4 million for the year ended December 31, 2014. This increase was primarily because in 2014 we generated more revenue from stores in Hebei and Sichuan compared with 2013. We acquired Baixintang on December 26, 2013, and as a result for the year 2013 we only consolidated the revenue from Baixintang's retail pharmacy stores for the period from December 26 to December 31, 2013, while for 2014 we consolidated Baixintang's revenue for the whole year.

Pharmaceutical Manufacturing

Segment revenue increased by 26.1% from RMB105.4 million for the year ended December 31, 2013 to RMB132.9 million for the year ended December 31, 2014. This increase was primarily due to (i) our expanded geographic market coverage and increase in our revenue generated from the new geographic areas; and (ii) increase in our sales to our distributors as result of our enhanced promotion to our sub-distributors which led to increase in their sales.

Cost of Sales, Gross Profit and Gross Margin

Our cost of sales increased by 3.3% from RMB643.9 million for the year ended December 31, 2013 to RMB665.1 million for the year ended December 31, 2014. This increase was primarily due to increases in cost of sales for our self-operated retail pharmacies segment and pharmaceutical manufacturing segment.

Our gross profit increased by 21.1% from RMB150.4 million for the year ended December 31, 2013 to RMB182.1 million for the year ended December 31, 2014. Our gross margin increased from 18.9% for the year ended December 31, 2013 to 21.5% for the year ended December 31, 2014.

Pharmaceutical Distribution

The segment cost of sales of pharmaceutical distribution remained stable at RMB623.3 million for the year ended December 31, 2013 and the year ended December 31, 2014 while segment revenue increased primarily because the increase in segment revenue was primarily due to the increase in sales to franchise retail pharmacy stores and hospitals and other medical institutions in rural areas, which had a relatively higher profit margin, and sales to pharmaceutical wholesalers, which had lower profit margin, decreased during this period. As a result, the total segment cost remained stable while segment revenue increased.

The segment gross profit of pharmaceutical distribution increased by 13.0% from RMB79.9 million for the year ended December 31, 2013 to RMB90.3 million for the year ended December 31, 2014. The segment gross profit margin increased from 11.4% for the year ended December 31, 2013 to 12.6% for the year ended December 31, 2014, primarily due to our sales of products with high gross profit margins to franchise retail pharmacy stores following the implementation of the "Remote Prescription Review" system.

FINANCIAL INFORMATION

Self-operated Retail Pharmacies

The segment cost of sales of self-operated retail pharmacies increased by 62.3% from RMB12.2 million for the year ended December 31, 2013 to RMB19.8 million for the year ended December 31, 2014. This increase was primarily due to the increase in sales.

The segment gross profit of self-operated retail pharmacies increased by 75.9% from RMB5.4 million for the year ended December 31, 2013 to RMB9.5 million for the year ended December 31, 2014. The segment gross profit margin increased from 30.7% for the year ended December 31, 2013 to 32.4% for the year ended December 31, 2014, primarily because we closed one Japanese-style cosmeceutical store and suspended the operations of another one due to relocation, as these stores have lower average gross profit margins compared with our other self-operated retail pharmacy stores.

Pharmaceutical Manufacturing

The segment cost of sales of pharmaceutical manufacturing increased by 29.3% from RMB38.9 million for the year ended December 31, 2013 to RMB50.3 million for the year ended December 31, 2014. This increase was primarily due to the increase in sales and the increase in average raw material costs.

The segment gross profit of pharmaceutical manufacturing increased by 24.2% from RMB66.5 million for the year ended December 31, 2013 to RMB82.6 million for the year ended December 31, 2014. The segment gross profit margin decreased slightly from 63.1% for the year ended December 31, 2013 to 62.2% for the year ended December 31, 2014, primarily due to the increase in average raw material costs.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 1.4% from RMB36.0 million for the year ended December 31, 2013 to RMB36.5 million for the year ended December 31, 2014. This increase was primarily due to (i) an increase in depreciation and amortization expenses relating to the fixed assets and intangible assets of Baixintang and interior decoration costs; (ii) an increase in our promotion expenses relating to promotion of our self-manufactured products to franchise retail pharmacy stores, hospitals and other medical institutions in rural areas and our sub-distributors; and (iii) an increase in rent and management fees primarily due to addition of the retail pharmacy stores under Baixintang that we acquired at the end of 2013, which were partially offset by the decrease in salary, welfare and benefits of our sales personnel as a result of consolidation of our sales team that led to decreased number of sales personnel.

General and Administrative Expenses

Our general and administrative expenses increased by 81.0% from RMB25.8 million for the year ended December 31, 2013 to RMB46.7 million for the year ended December 31, 2014. This increase was primarily due to (i) an increase in the professional and audit fees in connection with our proposed listing on the Stock Exchange; (ii) an increase in salary, welfare and benefits as a result of recruitment of senior management and licensed pharmacists and higher salary levels in general; (iii) an increase in the rent paid for our offices and warehouses as a result of increased total floor area; (iv) an increase in depreciation and amortization primarily relating to our new warehouse, logistics center and offices; and (v) an increase in

FINANCIAL INFORMATION

others due to the increase in license transfer registration fees as a result of the increase in the number of our licensed pharmacists and increased software license fees, which were partially offset by a decrease in provision for impairment of trade and other receivables.

Other Revenue

Other revenue increased by 41.8% from RMB14.6 million for the year ended December 31, 2013 to RMB20.7 million for the year ended December 31, 2014. This increase was primarily due to (i) the increase in franchise fees as a result of the implementation of our “Remote Prescription Review” system and the increase in the total number of franchise retail pharmacy stores under our brand; (ii) the increase in our bank interest income as a result of the increase in our pledged bank deposits; and (iii) the increase in others as a result of an increase in revenue generated from services we provide in connection with the “Remote Prescription Review” system, such as training and service fees and informational materials costs.

Other Net Income/(Loss)

Other net income was RMB33,000 for the year ended December 31, 2013 and we recorded a net loss of RMB0.7 million for the year ended December 31, 2014 primarily due to RMB2.0 million of loss on disposal of property, plant and equipment relating to our relocation of one Japanese-style cosmeceutical store, as partially offset by RMB1.2 million of reversal of impairment of trade receivables.

Profit from Operations and Operating Margin

As a result of the foregoing, our profit from operations increased by 15.0% from RMB103.3 million for the year ended December 31, 2013 to RMB118.8 million for the year ended December 31, 2014. Our operating margin increased from 13.0% for the year ended December 31, 2013 to 14.0% for the year ended December 31, 2014.

Finance Costs

Finance costs increased by 52.5% from RMB5.9 million for the year ended December 31, 2013 to RMB9.0 million for the year ended December 31, 2014. This increase was primarily due to the increase in bills charges resulting from discount costs relating to our bills receivable and the increase in interest expense relating to bank borrowings.

Impairment on Goodwill

We recognized RMB4.7 million of impairment on goodwill as of December 31, 2014, which related solely to our self-operated retail pharmacy stores under Baixintang. The recoverable amount of the cash-generating units of Baixintang as determined based on value-in-use calculations was higher than its carrying amount as of December 31, 2013 and, as a result, no impairment on goodwill was recognized as of December 31, 2013. The recoverable amount was lower than its carrying amount as of December 31, 2014 and, as a result, we recognized impairment on goodwill as of December 31, 2014.

Change in Fair Value on Convertible Redeemable Preferred Shares

Change in fair value on convertible redeemable preferred shares increased by 106.2% from RMB16.1 million for the year ended December 31, 2013 to RMB33.2 million for the year ended

FINANCIAL INFORMATION

December 31, 2014. The fair value of the Preferred Shares increased significantly between December 31, 2013 and December 31, 2014 primarily due to the forecasted significant improvement in our future results of operations based on the 2014 results we were able to achieve. As a result, we recorded adjustments in the amount of RMB33.2 million for the year ended December 31, 2014.

Profit before Taxation

Profit before income tax decreased by 11.6% from RMB81.3 million for the year ended December 31, 2013 to RMB71.9 million for the year ended December 31, 2014. This decrease was primarily due to the significant increase in change in fair value on convertible redeemable preferred shares and finance costs, as partially offset by an increase in our profit from operations.

Income Tax Expense

Income tax expense increased by 41.1% from RMB18.2 million for the year ended December 31, 2013 to RMB25.7 million for the year ended December 31, 2014. This increase was primarily due to increase in our profit from operations.

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year decreased by 26.9% from RMB63.1 million for the year ended December 31, 2013 to RMB46.1 million for the year ended December 31, 2014. Our net profit margin decreased from 7.9% for the year ended December 31, 2013 to 5.4% for the year ended December 31, 2014.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Turnover

Our total turnover increased by 11.5% from RMB712.1 million for the year ended December 31, 2012 to RMB794.3 million for the year ended December 31, 2013. This increase was primarily attributable to growth in turnover from our (i) pharmaceutical distribution business; and (ii) self-operated retail pharmacy stores, as partially offset by a decrease in turnover from our pharmaceutical manufacturing segment.

Pharmaceutical Distribution

Segment revenue increased by 11.6% from RMB630.2 million for the year ended December 31, 2012 to RMB703.2 million for the year ended December 31, 2013. This increase was primarily due to growth in sales to pharmaceutical wholesalers and sales to franchise retail pharmacy stores, which was in turn a result of (i) the expansion of our distribution network and increase in the number of franchise retail pharmacy stores; (ii) our expanded product portfolio that better meets the demand of our target customers; and (iii) increased overall market demand for pharmaceutical products. The increase in growth in sales to pharmaceutical wholesalers and to franchise retail pharmacy stores was partially offset by a decrease in sales to rural hospitals and other medical institutions as a result of increased competition due to the PRC government's policy changes promulgated in November 2011, which began to be implemented in 2012 and were implemented on a much wider scale in 2013, to allow up to three distributors in cities or districts where we used to enjoy exclusive distribution rights.

FINANCIAL INFORMATION

Self-operated Retail Pharmacies

Segment revenue increased significantly from RMB7.8 million for the year ended December 31, 2012 to RMB17.6 million for the year ended December 31, 2013. This increase was primarily due to (i) increase in same store sales; (ii) increase in the number of our self-operated retail pharmacy stores; and (iii) addition of three large Japanese-style cosmeceutical stores opened with our strategic partner V-drug.

Pharmaceutical Manufacturing

Segment revenue decreased by 4.2% from RMB110.0 million for the year ended December 31, 2012 to RMB105.4 million for the year ended December 31, 2013 primarily due to a decrease in turnover derived from our Zhenghonghua embrocation as a result of slight decreases in both its sales volume and average selling price, as partially offset by an increase in sales volume of our Honghua embrocation.

Cost of Sales, Gross Profit and Gross Margin

Our cost of sales increased by 10.5% from RMB582.6 million for the year ended December 31, 2012 to RMB643.9 million for the year ended December 31, 2013. This increase was primarily attributable to the increase in costs of purchased products in our pharmaceutical distribution and self-operated retail pharmacies segments in line with the growth in sales.

Our gross profit increased by 16.1% from RMB129.5 million for the year ended December 31, 2012 to RMB150.4 million for the year ended December 31, 2013. Our gross profit margin increased from 18.2% for the year ended December 31, 2012 to 18.9% for the year ended December 31, 2013.

Pharmaceutical Distribution

The segment cost of sales of pharmaceutical distribution increased by 9.6% from RMB568.5 million for the year ended December 31, 2012 to RMB623.3 million for the year ended December 31, 2013. This increase was primarily attributable to higher costs of purchased products due to the increase in sales.

The segment gross profit of pharmaceutical distribution increased by 29.7% from RMB61.6 million for the year ended December 31, 2012 to RMB79.9 million for the year ended December 31, 2013. The segment gross profit margin increased from 9.8% for the year ended December 31, 2012 to 11.4% for the year ended December 31, 2013 primarily due to greater discounts to product procurement prices we were able to obtain from suppliers as a result of our increased purchase volumes and our increased payment of deposits.

Self-operated Retail Pharmacies

The segment cost of sales of self-operated retail pharmacies increased significantly from RMB5.1 million for the year ended December 31, 2012 to RMB12.2 million for the year ended December 31, 2013. This increase was primarily attributable to increase in purchase costs of products in line with the increase in sales at our self-operated retail pharmacies.

The segment gross profit of self-operated retail pharmacies increased significantly from RMB2.8 million for the year ended December 31, 2012 to RMB5.4 million for the year ended December 31, 2013. The segment gross profit margin decreased from 35.3% for the year ended December 31, 2012 to 30.7%

FINANCIAL INFORMATION

for the year ended December 31, 2013 despite favorable product procurement prices mainly due to our addition of three Japanese-style cosmeceutical stores in 2013, which have lower average gross profit margins compared with our other self-operated retail pharmacy stores.

Pharmaceutical Manufacturing

The segment cost of sales of pharmaceutical manufacturing decreased by 5.8% from RMB41.3 million for the year ended December 31, 2012 to RMB38.9 million for the year ended December 31, 2013. This decrease was primarily attributable to (i) lower average raw material costs; and (ii) lower overhead costs as a result of improved production efficiency.

The segment gross profit of pharmaceutical manufacturing decreased by 3.2% from RMB68.7 million for the year ended December 31, 2012 to RMB66.5 million for the year ended December 31, 2013. The segment gross profit margin increased from 62.4% for the year ended December 31, 2012 to 63.1% for the year ended December 31, 2013. The increase in segment gross profit margin was mainly due to lower average raw material costs.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 7.8% from RMB33.4 million for the year ended December 31, 2012 to RMB36.0 million for the year ended December 31, 2013. This increase was mainly due to (i) increases in our rent and management fees, which in turn were primarily a result of (a) the opening of our three large Japanese-style cosmeceutical stores in 2013; and (b) an increase in the number of our self-operated retail pharmacy stores; and (ii) increase in depreciation and amortization expenses relating to the interior decoration costs incurred for our Japanese-style cosmeceutical stores and additional self-operated retail pharmacy stores. The above increases were partially offset by (i) a decrease in salary, welfare and benefits due to consolidation of our sales teams that led to a reduction in the total number of our sales personnel; and (ii) a decrease in our promotional expenses primarily because we eliminated a new drug promotion department within our pharmaceutical distribution segment in September 2012, as partially offset by an increase in our advertisement expenses due to television commercials for Zhenghonghua embrocation to raise its brand awareness and gain market share.

General and Administrative Expenses

Our general and administrative expenses increased slightly from RMB25.1 million for the year ended December 31, 2012 to RMB25.8 million for the year ended December 31, 2013. This was mainly due to (i) increase in provision for impairment of trade receivables; and (ii) increase in salary, welfare and benefits primarily as a result of higher salary levels in general in the PRC. The above increases were partially offset by a decrease in professional and audit fees. Our professional and audit fees were higher in 2012 as the result of professional and audit work conducted for a proposed listing of our Shares that year.

Other Revenue

Other revenue increased by 40.4% from RMB10.4 million for the year ended December 31, 2012 to RMB14.6 million for the year ended December 31, 2013. This increase was primarily due to increases in franchise fees and growth in rental income as we leased additional space in our Healthcare Product Outlet to retailers.

FINANCIAL INFORMATION

Other Net Income

Other net income decreased from RMB0.4 million for the year ended December 31, 2012 to RMB33,000 for the year ended December 31, 2013. This decrease was primarily because we had RMB0.4 million of gain on disposal of a subsidiary in 2012 but none in 2013.

Profit from Operations and Operating Margin

As a result of the foregoing, our profit from operations increased by 26.3% from RMB81.8 million for the year ended December 31, 2012 to RMB103.3 million for the year ended December 31, 2013. Our operating margin increased from 11.5% for the year ended December 31, 2012 to 13.0% for the year ended December 31, 2013.

Finance Costs

Finance costs increased by 69.6% from RMB3.5 million for the year ended December 31, 2012 to RMB5.9 million for the year ended December 31, 2013. This increase was mainly due to increase in our bank borrowings and discount costs relating to our bills receivable.

Impairment on Goodwill

We did not have impairment on goodwill as of December 31, 2012 and 2013.

Change in Fair Value on Convertible Redeemable Preferred Shares

Change in fair value on convertible redeemable preferred shares decreased by 69.0% from RMB51.9 million for the year ended December 31, 2012 to RMB16.1 million for the year ended December 31, 2013. The investors' subscriptions to Series A and Series B Preferred Shares were completed in February 2012, when the initial fair value of the Preferred Shares was established. As our business grew subsequently and we anticipated further expansion leading to an initial public offering of our Shares, the fair value of the Preferred Shares increased significantly between February 2012 and December 31, 2012, when the fair value of the Preferred Shares was next appraised based on our business plan. As a result, we recorded adjustments in the amount of RMB51.9 million for 2012. The fair value of the Preferred Shares did not increase as much between December 31, 2012 and December 31, 2013 because there were only minor revisions to our business plan and we were in progress towards achieving an initial public offering when we appraised the fair value of the Preferred Shares again on December 31, 2013. As a result, we recorded adjustments in the amount of RMB16.1 million for 2013.

Profit before Taxation

Profit before income tax increased significantly from RMB26.4 million for the year ended December 31, 2012 to RMB81.3 million for the year ended December 31, 2013. This increase was mainly due to an increase in our operating profit and a decrease in change in fair value on convertible redeemable preferred shares, which was partially offset by an increase in our finance cost.

Income Tax Expense

Income tax expense increased by 6.4% from RMB17.1 million for the year ended December 31, 2012 to RMB18.2 million for the year ended December 31, 2013. This increase was mainly due to increase in our profit from operations.

FINANCIAL INFORMATION

Profit for the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased significantly from RMB9.3 million for the year ended December 31, 2012 to RMB63.1 million for the year ended December 31, 2013. Our net profit margin increased from 1.3% for the year ended December 31, 2012 to 7.9% for the year ended December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our capital requirements primarily related to working capital needs, capital expenditures on property, plant and equipment, business acquisitions and interior decoration for self-operated retail pharmacies. We have historically met our working capital and other liquidity requirements from cash generated from our operations, while financing the remainder primarily through bank borrowings and debt and equity securities offerings. Going forward, we expect to continue relying principally on our internally-generated cash flows for our working capital and other liquidity requirements, and will also use the proceeds from the Global Offering and bank and other borrowings to finance a portion of our capital requirements. If our capital expenditures or other long-term commitments increase or if we need significant financing for business acquisitions we may decide to incur additional long-term indebtedness, depending on our financial condition at the time and 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 December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Net cash (used in)/generated from operating activities	(42,242)	92,225	48,664
Net cash used in investing activities	(2,698)	(105,599)	(16,294)
Net cash generated from/(used in) financing activities	34,067	39,935	(30,933)
Net (decrease)/increase in cash and cash equivalents	(10,873)	26,561	1,437
Cash and cash equivalents at the beginning of the year	50,120	39,227	65,375
Effect of changes in foreign exchange rate . .	(20)	(413)	247
Cash and cash equivalents at the end of the year	39,227	65,375	67,059

FINANCIAL INFORMATION

Net cash (used in)/generated from operating activities

For the year ended December 31, 2014, our net cash generated from operating activities was RMB48.7 million, reflecting (i) profit before taxation of RMB71.9 million, as adjusted positively by RMB51.7 million of non-cash items, primarily including RMB33.2 million of change in fair value of convertible redeemable preferred shares, RMB9.4 million in depreciation of property, plant and equipment, RMB4.8 million of finance costs, RMB2.0 million of loss on disposal of property, plant and equipment and RMB1.1 million of write off of other receivables; (ii) RMB24.6 million of decrease in trade and other payables primarily because (A) we increased prepayments made to suppliers of products with high market demand, which reduced trade payables; (B) our purchases from pharmaceutical distributors decreased. Pharmaceutical distributors generally grant us credit periods, compared with pharmaceutical manufacturers which often require payment upon purchase. As a result, our trade and other payables decreased along with the decrease in our purchases from pharmaceutical distributors; and (C) we reduced our use of bills because we wanted to release guarantees from related parties prior to the Listing, as we are required to provide a combination of cash deposits and corporate guarantees in order to obtain a credit limit from a bank for bills payable; (iii) RMB13.0 million of increase in trade and other receivables primarily because our sales in November and December 2014 were significantly higher than sales for the same period in 2013 and, as a result, our trade receivables that were outstanding but not due increased as of December 31, 2014 compared with December 31, 2013; (iv) RMB10.3 million of increase in inventories primarily because our inventories as of December 31, 2013 were low as we were in the process of moving our warehouse around the end of 2013 and reduced our inventories accordingly; and (v) income tax paid of RMB26.9 million.

For the year ended December 31, 2013, our net cash generated from operating activities was RMB92.2 million, reflecting (i) profit before taxation of RMB81.3 million, as adjusted positively by RMB27.5 million of non-cash items, primarily including RMB16.1 million of change in fair value of convertible redeemable preferred shares, RMB4.1 million of finance costs, RMB3.8 million of depreciation of property, plant and equipment, and RMB3.1 million of provision for impairment loss recognized for trade receivables more than twelve months overdue; (ii) RMB53.9 million of increase in trade and other payables primarily due to increases in our bills payable as a result of increases in our purchases of products in line with the growth of our sales; and (iii) RMB10.2 million of decrease in inventories because we were in the process of moving our warehouse around the end of 2013 and reduced our inventory accordingly, as partially offset by RMB62.2 million of increase in trade and other receivables primarily due to increase in advance payments to suppliers to secure favorable prices, growth in our sales and larger credit limit amounts and longer credit periods we grant to customers.

For the year ended December 31, 2012, our net cash used in operating activities was RMB42.2 million, reflecting (i) profit before taxation of RMB26.4 million, as adjusted positively by RMB58.2 million of non-cash items, primarily including RMB51.9 million of change in fair value of convertible redeemable preferred shares, RMB2.9 million of depreciation of property, plant and equipment, RMB2.9 million of finance costs and RMB1.4 million of provision for impairment loss recognized for trade receivables more than twelve months overdue; and (ii) RMB21.0 million of increase in trade and other payables as a result of an increase in our purchases of products, which in turn was due to the increase in our sales. This cash inflow was offset by (i) RMB115.6 million of increase in trade and other receivables as a result of increase in advance payments to suppliers to secure favorable prices, growth in our sales and larger credit limit amounts and longer credit terms we grant to customers, increase in advances to third parties arising from our prepayment to a shareholder of Baixintang in connection with our acquisition of Baixintang, and increase in others as a result of an increase in our cash advance to an employee who then used this advance as bank deposit to provide guarantee for issuance of our bank bills; and (ii) RMB11.8 million of increase in inventories in response to the increase in the number of our self-operated retail pharmacy stores and franchise retail pharmacy stores under our brand, resulting in net cash used in operating activities for 2012.

FINANCIAL INFORMATION

Net cash used in investing activities

For the year ended December 31, 2014, our net cash used in investing activities was RMB16.3 million, primarily reflecting cash outflows of (i) RMB19.8 million of payment for purchase of property, plant and equipment for our production facilities and for interior decoration costs incurred for our offices and warehouses; (ii) RMB20.2 million of increase in pledged bank deposits; and (iii) RMB9.9 million in payment for deposit for purchase of property, plant and equipment for our production facilities, which were partially offset by (i) RMB30.0 million of decrease in deposit paid for potential acquisition resulting from the refund of the RMB30.0 million deposit we paid in 2013 for a potential acquisition which did not proceed forward; (ii) RMB2.0 million of decrease in amounts due from other related parties; and (iii) RMB1.7 million in bank interest received.

For the year ended December 31, 2013, our net cash used in investing activities was RMB105.6 million, primarily reflecting cash outflows of (i) RMB38.6 million of increase in restricted bank deposits because we had more pledged deposits due to the increase in our bills payables; (ii) RMB30.0 million of increase in deposit paid for potential acquisition, which represented deposit we paid pursuant to a preliminary agreement we entered into in December 2013 with Independent Third Parties to acquire a 100% interest in a pharmaceutical company based in Hebei Province. This preliminary agreement was subsequently cancelled in March 2014 as the parties did not reach final agreement on the proposed acquisition and this deposit was fully refunded; (iii) RMB20.0 million in prepayment for the purchase of intangible assets, which represented the prepayment we made to Beijing Runbofude Biotechnology Development Co., Ltd. for its patented technology to manufacture and sell near-infrared analyzer and detection kit of HPV; (iv) RMB10.5 million in the purchase of fixed assets for our self-operated retail pharmacy stores and Japanese-style cosmeceutical stores; (v) RMB10.0 million for prepayment for deposit for purchase of property, plant and equipment, which represented our prepayment for the equipment relating to our “Remote Prescription Review” system; (vi) RMB9.9 million in net cash outflow in respect of the acquisition of Baixintang; and (vii) RMB5.0 million of increase in other deposit, which represented deposit we paid a supplier in Ningxia province to secure supply of some Chinese medicine, which were partially offset by (i) RMB15.3 million in decrease in amounts due from other related parties; and (ii) RMB4.0 million in net cash inflow in respect of the disposal of subsidiaries, representing part of the consideration for our disposal of Chengdu Zhenlong in 2011 which was paid in 2013.

For the year ended December 31, 2012, our net cash used in investing activities was RMB2.7 million, primarily reflecting our cash outflows of (i) RMB12.8 million of increase in amounts due from other related parties; (ii) RMB3.9 million in the purchase of fixed assets for our self-operated retail pharmacy stores and Japanese-style cosmeceutical stores; (iii) RMB2.6 million of increase in deposits paid for acquisition of retail pharmacy stores; and (iv) RMB2.5 million in increase in restricted bank deposits due to the increase in our bills payables, which were partially offset by RMB20.0 million in proceeds from the disposal of an available-for-sale investment.

FINANCIAL INFORMATION

Net cash generated from/(used in) financing activities

For the year ended December 31, 2014, our net cash used in financing activities was RMB30.9 million, primarily reflecting cash outflows of (i) RMB100.0 million in repayment of bank loans; (ii) RMB4.8 million in borrowing costs paid; and (iii) RMB1.8 million decrease in amounts due to other related parties, which were partially offset by RMB75.0 million in proceeds from new bank loans.

For the year ended December 31, 2013, our net cash generated from financing activities was RMB39.9 million, primarily reflecting cash inflows of RMB80.0 million in proceeds from new bank loans, which were partially offset primarily by (i) RMB29.0 million in the repayment of bank loans; (ii) RMB8.6 million in repayment to the Controlling Shareholder; and (iii) RMB4.1 million in borrowing costs paid, which represented payment of interest on bank loans.

For the year ended December 31, 2012, our net cash generated from financing activities was RMB34.1 million, primarily reflecting cash inflows of (i) RMB43.5 million in proceeds from the issue of convertible redeemable preferred shares; and (ii) RMB24.0 million in proceeds from new bank loans, which were partially offset primarily by (i) RMB30.9 million in the repayment of bank loans; and (ii) RMB2.9 million in borrowing costs paid.

WORKING CAPITAL

Taking into account of the internal resources available to us, the estimated net proceeds of the Global Offering and our bank borrowings, our Directors are of the view that we have sufficient working capital for our present requirements, that is, for at least 12 months from the date of this prospectus.

FINANCIAL INFORMATION

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION INFORMATION

Net Current Assets

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

	As of December 31,			As of
	2012	2013	2014	April 30, 2015
	<i>(RMB'000)</i>			
Current assets				
Inventories	67,876	58,817	69,128	92,059
Trade and other receivables	292,367	350,609	363,799	420,809
Amount due from the Controlling				
Shareholder	—	1,359	675	—
Amount due from director	92	247	—	—
Amounts due from other related				
parties	17,702	2,385	340	340
Pledged bank deposits	15,382	53,977	74,180	24,893
Cash and cash equivalents	39,227	65,375	67,059	8,152
	<u>432,646</u>	<u>532,769</u>	<u>575,181</u>	<u>546,253</u>
Current liabilities				
Trade and other payables	(150,782)	(208,966)	(184,332)	(149,315)
Bank borrowings	(24,000)	(75,000)	(50,000)	(40,000)
Convertible redeemable preferred				
shares	(173,560)	(184,717)	(220,355)	(228,062)
Amount due to the Controlling				
Shareholder	(8,511)	—	—	(2,321)
Amount due to a director	—	—	(210)	(210)
Amounts due to other related				
parties	(405)	(2,029)	(232)	(232)
Current taxation	(12,797)	(13,788)	(13,472)	(8,138)
	<u>(370,055)</u>	<u>(484,500)</u>	<u>(468,601)</u>	<u>(428,278)</u>
Net current assets	<u>62,591</u>	<u>48,269</u>	<u>106,580</u>	<u>117,975</u>

FINANCIAL INFORMATION

Our net current assets decreased from RMB62.6 million as of December 31, 2012 to RMB48.3 million as of December 31, 2013, primarily due to (i) RMB58.2 million increase in trade and other payables; (ii) RMB51.0 million increase in bank borrowings; (iii) RMB15.2 million decrease in amounts due from related parties; and (iv) RMB9.1 million decrease in inventories, which were partially offset by RMB58.2 million increase in trade and other receivables, and RMB8.5 million decrease in amount due to the Controlling Shareholder.

Our net current assets increased significantly from RMB48.3 million as of December 31, 2013 to RMB106.6 million as of December 31, 2014 primarily due to (i) RMB25.0 million decrease in bank borrowings; (ii) RMB24.6 million decrease in trade and other payables; (iii) RMB20.2 million increase in pledged bank deposits; (iv) RMB13.2 million increase in trade and other receivables; and (v) RMB10.3 million increase in inventories, which were partially offset by an increase of RMB35.6 million in current liabilities relating to convertible redeemable preferred shares. As of December 31, 2014, we had RMB0.2 million in amount due to a director as a result of advances made by the director for our Group's business travel expenses. We intend to settle this amount before the Listing.

Our net current assets increased from RMB106.6 million as of December 31, 2014 to RMB118.0 million as of April 30, 2015 primarily due to (i) an increase of RMB57.0 million in trade and other receivables; (ii) an increase of RMB22.9 million in inventories; and (iii) a decrease of RMB35.0 million in trade and other payables, which were partially offset by (i) a decrease of RMB58.9 million in cash and cash equivalents; and (ii) a decrease of RMB49.3 million in pledged bank deposits.

FINANCIAL INFORMATION

Trade and Other Receivables

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

	As of December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Trade and other receivables			
Trade receivables	145,577	155,919	218,563
Commercial bills receivables	—	18,000	20,500
Less: allowance for doubtful debts	(7,464)	(10,516)	(9,254)
	138,113	163,403	229,809
Bank bills receivables.	3,140	389	5,507
Advance payments to suppliers	55,217	101,628	91,123
Other deposits, prepayments and receivables:	95,897	85,189	37,360
Advances to third parties	52,926	55,666	—
Deposit paid for research and development project	8,000	—	—
Government grant receivable	7,000	7,000	7,000
Consideration receivables on disposal of subsidiaries	6,500	2,500	—
Prepaid land lease prepayments	89	109	109
Advance to an employee	7,900	3,200	—
Other recoverable taxes ⁽¹⁾	2,033	2,093	20,686
Others ⁽²⁾	11,449	14,621	9,565
	<u>292,367</u>	<u>350,609</u>	<u>363,799</u>

Notes:

- (1) Other recoverable taxes represents VAT refunds we are entitled to but have not yet received.
- (2) Others primarily consists of (i) receivables from certain of our sales personnel; (ii) prepayments for intangible assets and advertisements; (iii) guarantee deposits for the tender process in our pharmaceutical distribution to hospitals and other medical institutions in rural areas; and (iv) prepaid rent. As part of our measures to manage our receivables and incentivize our sales employees, some of our receivables from certain franchise retail pharmacy stores in remote areas were accounted for as receivables from sales personnel who cover the accounts of those franchise retail pharmacy stores. The relevant sales personnel manage the accounts of those franchise retail pharmacy stores they are responsible for. We give the goods to the relevant sales personnel, and they deliver the goods to franchise retail pharmacy stores they are responsible for and collect payments. We believe that having the relevant sales personnel personally accountable for the receivables will incentivize them to maximize their efforts to collect the receivables. This arrangement also enables us to manage franchise retail pharmacy stores in remote areas in a more cost-efficient manner. The salaries and bonuses of these relevant sales personnel are linked to the recovery rate of the receivables they are responsible for. We closely monitor the recoverability of such receivables. We do not give such sales personnel additional customer accounts or products for sale until after the past due receivables have been collected.

FINANCIAL INFORMATION

Our total trade and other receivables increased by 19.9% from RMB292.4 million as of December 31, 2012 to RMB350.6 million as of December 31, 2013, primarily due to (i) an increase of RMB10.3 million in trade receivables in line with the growth in our turnover and our granting larger credit limit amounts to certain customers and longer credit terms to others in order to provide incentives to distributors to gain market share for the products we sell; (ii) our commencing to accept commercial bills as payment from customers, resulting in a RMB18.0 million balance of commercial bill receivables as of December 31, 2013; and (iii) an increase of RMB46.4 million in advance payments to suppliers (A) in order to secure products at favorable prices for our pharmaceutical distribution segment and self-operated retail pharmacies segment, which was in line with the growth in turnover from those segments and (B) due to our expectation of further growth in sales to franchise retail pharmacy stores in 2014 as a result of our installation of the “Remote Prescription Review” system and sales by our self-operated retail pharmacy stores as a result of the increase in the number of our self-operated retail pharmacy stores in 2014 following our acquisition of Baixintang at the end of 2013. The above increases were partially offset by (i) a decrease of RMB10.7 million in other deposits, prepayments and receivables, which in turn was primarily due to (A) a decrease of RMB8.0 million in deposit paid for a research and development project which we had in 2012 for cooperation with an Independent Third Party on the research and development of a pharmaceutical product, (B) a decrease of RMB4.7 million in the amount we advanced to an employee; and (C) a decrease of RMB4.0 million in consideration receivables on disposal of subsidiaries because the remaining RMB4.0 million consideration from our disposal of Chengdu Zhenlong in 2011 was paid in 2013, as offset partially by an increase of RMB3.2 million in others as our receivables from certain franchise retail pharmacy stores in remote areas increased in line with our sales to them and an increase of RMB2.7 million in advances to third parties due to our payment to a third party to procure Chinese medicine on our behalf; and (ii) a decrease of RMB2.8 million in bank bills receivables as we pledge more bank bills receivables for cash prior to their maturity. The advance to an employee consisted of the amount we advanced to Ms. Liu Xiaohui, a minority shareholder in our subsidiary Chunshengtang and general manager of Chunshengtang, who in turn used this amount as bank deposit to provide guarantee for issuance of our bank bills. In order to meet the requirements of the bank’s joint guarantee business which requires personal guarantee, we entered into this arrangement with Ms. Liu Xiaohui to obtain bank credit for the issuance of our bank bills. According to our PRC legal advisers, Shu Jin Law Firm, this arrangement is in compliance with the relevant laws and regulations of the PRC. Advance to an employee in 2012 also included payment Ms. Liu Xiaohui made on behalf of our Group for acquisition of retail pharmacies in Hebei province. Ms. Liu Xiaohui had been managing Chunshengtang before it was acquired by us and was widely recognized in the pharmaceutical retail industry in Hebei province due to her experience and extensive business connections, so we put Ms. Liu Xiaohui in charge of our acquisitions in Hebei province. In order to facilitate our timely acquisition of suitable retail pharmacy stores and avoid possible delay that may result from corporate approval and bank transfers, we put the RMB3.4 million in Ms. Liu Xiaohui’s personal name for her to use for our acquisitions. As part of our risk management and internal control measures, we implemented our Advances and Guarantee Policies in July 2014, which set restrictions on our ability to make advances to employees and established an internal review system to assess advances to employees. See “Business — Risk Management Measures” for details. The internal control consultant and the Sole Sponsor are satisfied that we have adequate and effective internal controls relating to advances to an employee based on the following: (i) the advances to Ms. Liu Xiaohui relating to acquiring retail pharmacy stores in Hebei province (“Relevant Advance”) occurred in 2012, which was before the establishment and implementation of the two relevant internal control policies of Anti-fraud, Anti-corruption, and Anti-bribery Policies of Pa Shun Pharmaceutical International Holdings Limited (百信藥業國際控股有限公司反舞弊反腐敗及反商業賄賂制度) and Advances and Guarantee Policies (百信藥業國際控股有限公司墊款及擔保管理制度及流程) (“Relevant Policies”) in July 2014 and the further enhancement of the Relevant Policies in October 2014; (ii) the

FINANCIAL INFORMATION

Advances and Guarantee Policies govern the relevant Board approval procedures required for the advances to an employee for facilitating business transactions of companies within our Group, which is similar to the nature of Relevant Advance. Approval by the board of directors of the subsidiary for an advance amount less than RMB100,000 and approval by the Board of the Company for an advance amount greater or equal to RMB100,000 are required. A subsequent approval from the Board was obtained in early November 2014 for the advances to Ms. Liu Xiaohui; (iii) the Relevant Policies were designed and established with the assistance of the internal control consultant who possesses relevant expertise and knowledge; (iv) the Relevant Policies were approved by Board and the Board is therefore fully aware of such policy and procedures; and (v) Since the establishment of the Relevant Policies, we have been adhering to the Relevant Policies and no transactions similar to Relevant Advance have occurred.

Our total trade and other receivables increased by 3.8% from RMB350.6 million as of December 31, 2013 to RMB363.8 million as of December 31, 2014, primarily due to (i) an increase of RMB62.6 million in trade receivables primarily because our sales in November and December 2014 were significantly higher than sales for the same period in 2013 and, as a result, our trade receivables that were outstanding but not due increased as of December 31, 2014 compared with December 31, 2013. The significant increase in our sales in the fourth quarter of 2014 was in part because sales by our pharmaceutical distribution business decreased significantly in the first half of 2014 due to the relocation of our logistics center and warehouse and we increased our sales efforts later in the year to reach our sales target for the year; (ii) an increase of RMB2.5 million in commercial bills receivables because we allowed customers with good credit history to settle more payments with commercial bills; and (iii) an increase of RMB5.1 million in bank bills receivables primarily because a customer purchased products from us in early December and paid us at the end of December 2014 with a bank bill, and we had not pledged it for cash or endorsed it as of December 31, 2014. The above increases were partially offset by (i) a decrease of RMB47.8 million in other deposits, prepayments and receivables, which in turn was primarily due to (A) a decrease of RMB55.7 million in advances to third parties because we settled all such advances in 2014; (B) a decrease of RMB5.1 million in others as a result of (a) the use of our prepayments for certain production technology, software for our self-operated retail pharmacy stores and franchise retail pharmacy stores, and rent for our self-operated retail pharmacy stores to offset the related payables when they became due; and (b) settlement of receivables due from certain sales personnel following collection of receivables from relevant franchise retail pharmacy stores; and (C) a decrease of RMB3.2 million in advance to an employee because the employee repaid us this amount in full and discontinued the practice of making advances to employees for them to use as bank deposits to provide guarantee for issuance of our bank bills, as partially offset by an increase of RMB18.6 million in other taxes recoverable, which represents the value-added tax component of the purchase price for products that we have paid for but not yet received tax invoices for, such as prepayments for products. Other taxes recoverable increased because our prepayments to suppliers for products with high market demand increased during 2014 compared with 2013; and (ii) a decrease of RMB10.5 million in advance payments to suppliers because suppliers delivered our products in a more timely manner as a result of our enhanced relationships with them due to increased purchases, and our prepayments were transferred to payments upon delivery of the products. As a result, our advance payments to suppliers as of December 31, 2014 decreased compared with December 31, 2013 even though our average outstanding prepayments during the year 2014 increased compared with the year 2013.

FINANCIAL INFORMATION

During the Track Record Period, we made certain advances to third parties that were (i) owned by friends of Mr. Chen, our Controlling Shareholder; or (ii) formerly our related parties which later became our business associates and Independent Third Parties. These former related parties were Wuhan Wanniantong Medicament Company Limited (“Wanniantong”) and Chengdu Zhenlong. Wanniantong focuses on pharmaceutical distribution in Wuhan, Hubei province. Wanniantong was our related party prior to November 2011, when we disposed of it in order to focus on our pharmaceutical distribution business in Chengdu, Sichuan province. Chengdu Zhenlong was principally engaged in manufacturing traditional Chinese medicine. As PRC laws did not allow foreign investment in the manufacturing of Chinese medicine decoction pieces, we disposed of Chengdu Zhenlong in January 2012. Our advances to third parties during the Track Record Period were made for the following purposes (i) working capital, including payments for purchases of raw materials and products; (ii) renovation and construction of buildings and production facilities; and (iii) payment of registered capital for newly-established company. As these third parties were also our customers with whom we expected to continue to have business transactions in the future, we made such advances as a favor in order to maintain good business relationships with them. All of these advances were interest-free. These advances were unrelated to our procurement of business. As of December 31, 2014, all such advances to third parties had been settled in full. We do not intend to continue to make such advances to third parties after the Listing.

According to our PRC legal advisers, Shu Jin Law Firm, such advancing activities between enterprises did not comply with certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions (貸款通則), in a case where enterprises engage in borrowing and lending without authorization, the PBOC may impose a fine on the lending party in an amount equal to one to five times of the illegal proceeds generated from the lending activity, and concurrently invalidate such lending activity. Our PRC legal advisers, Shu Jin Law Firm, are of the view that, as we (i) did not charge any interest or fee for the advances and as a result received no illegal proceeds; and (ii) had settled all such advances to third parties as of June 2014, the risk of the PBOC imposing any penalty on us is low. Our Directors confirm that no such advance to third parties was still outstanding as of the Latest Practicable Date and that we do not intend to continue to make such advances to third parties after the Listing.

The table below sets out an aging analysis of our trade receivables and commercial bills receivables based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts as of the dates indicated.

	As of December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Within 1 month	27,799	27,520	80,229
1 to 3 months	31,756	31,706	98,686
4 to 6 months	27,630	28,182	41,791
Over 6 months	50,928	75,995	9,103
Trade receivables and commercial			
 bills receivables	138,113	163,403	229,809

Trade receivables and commercial bills receivables are due within 180 days from the date of billing.

FINANCIAL INFORMATION

Impairment losses in respect of trade receivables and commercial bills receivables are recorded using an allowance account unless we are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and commercial bills receivable directly.

	As of December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At the beginning of the year	6,096	7,464	10,516
Impairment losses/(reversal of impairment losses) recognized.	1,368	3,052	(1,239)
Uncollectible amounts written off	—	—	(23)
	7,464	10,516	9,254
At the end of the year	7,464	10,516	9,254

Our impairment losses recognized during the year increased from RMB1.4 million as of December 31, 2012 to RMB3.1 million as of December 31, 2013 primarily as the result of our elimination of a new drug department within our pharmaceutical distribution segment, following which receivables from our previous sales of new drugs to certain customers were not collected in time. We recognized reversal of impairment losses of RMB1.2 million as of December 31, 2014 because we collected certain receivables that we had made provision for due to our increased efforts at collection.

For the determination of provision for doubtful debts, we consider factors such as the age of the receivables, credit history of the debtors, and prevailing market conditions. At the end of each month, our finance department compiles detailed reports on the breakdown analysis, aging analysis, and impairment losses of our trade and other receivables. When reviewing the aging analysis of trade and other receivables, our chief finance officer pays particular attention to each item that is overdue, of a large amount, of non-trade nature or in a personal name, and performs recoverability analysis taking into account the nature of the receivables, the relevant customer's business and financial condition, historical sales amount to the customer and the expected future revenue from the customer. Our sales personnel make efforts to collect the receivables from the relevant customer based on our chief finance officer's review results. Our chief finance officer then makes recommendations on provision for doubtful debts or write-offs and submits the related reports to relevant business segment head for review. Upon the relevant business segment head's review and confirmation, our finance department then makes provision for doubtful debts or records write-offs. Our Directors believe that the provision made for impairment of trade and bills receivables during the Track Record Period was adequate, after assessing the length in time of overdue trade and bills receivables as well as their recoverability. We have individually assessed the recoverability of each long outstanding receivable item by visiting the relevant customer or by telephone follow-up.

We have adopted certain measures with a view to reducing our trade and other receivables, including more stringent examination of a potential customer's qualifications and certifications pursuant to GSP standards, entering into sales contracts with credit terms more favorable to us, further increasing our efforts to collect outstanding receivables, and keeping regular communications with customers to gain up to date understanding of changes in customers' business and financial condition.

FINANCIAL INFORMATION

The ageing analysis of trade receivables and commercial bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	As of December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	74,702	80,288	206,119
Less than 1 month past due	15,540	21,342	17,498
1 to 3 months past due	12,266	25,332	3,722
4 to 6 months past due	15,806	5,424	501
Over 6 months past due	19,799	31,017	1,969
	63,411	83,115	23,690
	138,113	163,403	229,809

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with us. Based on past experience, our management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Our trade and commercial bills receivables that were past due amounted to RMB63.4 million, RMB83.1 million and RMB23.7 million for the three years ended December 31, 2012, 2013 and 2014, respectively, representing 21.7%, 23.7% and 6.5% of our total trade receivables and commercial bills receivables for the same periods. Although our contracts with these customers stipulated 30-day credit periods, we monitored the receivables closely but did not seek monthly settlements of our receivables from them for the purpose of maintaining long-term and good relationships with them. As of April 30, 2015, we had subsequently collected RMB16.9 million, or 71.3%, of our past due receivables outstanding as of December 31, 2014.

As of April 30, 2015, we had subsequently collected RMB172.4 million, or 75%, of our outstanding trade and commercial bills receivables as of December 31, 2014.

FINANCIAL INFORMATION

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

	Year ended December 31,		
	2012	2013	2014
Trade and commercial bills receivables turnover days ⁽¹⁾	64.9	69.3	84.7

Note:

- (1) Trade and commercial bills receivables turnover days are calculated using the average of the beginning and ending trade debtor and commercial bills receivables balances (net of allowance for doubtful debts) for the period, divided by turnover for the period, multiplied by the number of days in the period.

The overall increase in our trade receivables and commercial bills receivables turnover days from 64.9 days for 2012 to 69.3 days for 2013 and 84.7 days for 2014 was primarily due to the longer credit periods we grant to customers as discussed above and the increase in our turnover.

Trade and commercial bills receivables turnover days for our pharmaceutical distribution business segment were 45.2 days, 40.0 days and 66.6 days for the years ended December 31, 2012, 2013 and 2014, respectively. Trade and commercial bills receivables turnover days for our pharmaceutical distribution business segment decreased from 2012 to 2013 primarily because we continued to increase our efforts at collecting receivables. We established a receivables supervision department in 2012 to monitor our receivables and manage our collection efforts. Trade and commercial bills receivables turnover days for our pharmaceutical distribution business segment increased from 2013 to 2014 primarily because our sales in November and December 2014 were significantly higher than sales for the same period in 2013 and, as a result, our trade receivables that were outstanding but not due increased as of December 31, 2014 compared with December 31, 2013.

Trade and commercial bills receivables turnover days for our self-operated retail pharmacies business segment were 2.5 days, 14.0 days and 12.2 days for the years ended December 31, 2012, 2013 and 2014, respectively. We have trade receivables for our self-operated retail pharmacies business segment because some of our customers pay with their social insurance card, and we can only settle the payment with the relevant Social Insurance Bureau in the month following the month in which the actual purchase occurred. Trade and commercial bills receivables turnover days for our self-operated retail pharmacies business segment increased from 2012 to 2013 primarily due to the increases in the total sales of our self-operated retail pharmacies segment. Trade and commercial bills receivables turnover days for our self-operated retail pharmacies business segment decreased from 2013 to 2014 primarily because the percentage of social insurance card payments decreased.

Trade and commercial bills receivables turnover days for our pharmaceutical manufacturing business segment were 160.6 days, 253.0 days and 179.7 days for the years ended December 31, 2012, 2013 and 2014, respectively. During the Track Record Period, we granted particularly favorable credit terms to two customers, Jointown Pharmaceutical Group Co., Ltd. (“Jointown”) and Wanniantong. Jointown is the largest pharmaceutical distribution company in China and has extensive distribution networks in all provinces in China. We granted high credit limits to Jointown in order to leverage its

FINANCIAL INFORMATION

distribution channels to gain market share for our products. Wanniantong focuses on pharmaceutical distribution in Wuhan, Hubei province. Wanniantong was our related party prior to November 2011 and since then has been controlled by friends of our Controlling Shareholder. We granted Wanniantong high credit limits primarily to develop a market for our products in Hubei province. Excluding the effect of these two customers, trade and commercial bills receivable turnover days for our pharmaceutical manufacturing business segment would have been 103.4 days, 182.3 days and 124.7 days, respectively, for the years ended December 31, 2012, 2013 and 2014. Trade and commercial bills receivables turnover days increased from 103.4 days for 2012 to 182.3 days for 2013 primarily because we increased customers' credit periods from up to 90 days to 90 to 180 days. Trade and commercial bills receivables turnover days for our pharmaceutical manufacturing business segment decreased from 2013 to 2014 because we increased our efforts at collecting receivables. In particular, we settled receivables from (i) our related parties; (ii) third parties that were owned by friends of our Controlling Shareholder; and (iii) third parties that were formerly our related parties. In addition, we began to accept bank bills for payment, as a result of which our trade and commercial bills receivables decreased.

Inventories

Our inventories primarily consist of raw materials, work in progress goods, finished goods and consumables. Raw materials and consumables are used in the production of our self-manufactured pharmaceutical products. Work in progress goods represent unfinished products in our pharmaceutical manufacturing business. Finished goods represents procured products we sell in our pharmaceutical distribution business and self-operated retail pharmacy business and the finished products in our pharmaceutical manufacturing business. During the Track Record Period, we did not make any provisions for impairment loss of our inventories. As of December 31, 2013, our inventories with the carrying amount of RMB46.4 million were pledged to secure our bills payables in the amount of RMB39.8 million. As of December 31, 2014, no inventories were pledged to secure our bills payables.

Our inventories decreased by 13.4% from RMB67.9 million as of December 31, 2012 to RMB58.8 million as of December 31, 2013, primarily because we were in the process of moving our warehouse around the end of 2013 and reduced our inventory accordingly. Our inventories increased by 17.5% from RMB58.8 million as of December 31, 2013 to RMB69.1 million as of December 31, 2014 primarily because we were in the process of moving our warehouse around the end of 2013 and reduced our inventories accordingly.

The following table sets forth a summary of our inventory balance as of the respective balance sheet dates for the periods indicated:

	As of December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	5,102	3,590	2,667
Work in progress goods	1,040	748	404
Finished goods	61,717	54,462	66,040
Consumables	17	17	17
Total	67,876	58,817	69,128

FINANCIAL INFORMATION

For the years ended December 31, 2012, 2013 and 2014, our inventory turnover days were 40.2 days, 35.9 days and 35.1 days. Our inventory turnover days decreased from 40.2 days for 2012 to 35.9 days for 2013 primarily because our inventories as of December 31, 2013 decreased by 13.3% compared with December 31, 2012 as we were in the process of moving our warehouse around the end of 2013 and reduced our inventories accordingly. Our inventory turnover days decreased to 35.1 days for 2014 primarily because (i) we reduced our inventories around the end of 2013 due to the moving of our warehouse; and (ii) we improved our product mix based on market demand.

Inventory turnover days for our pharmaceutical distribution business segment were 34.5 days, 30.0 days and 30.5 days for the years ended December 31, 2012, 2013 and 2014, respectively. Inventory turnover days for our pharmaceutical distribution business decreased from 2012 to 2013 primarily because we continuously improved our product mix based on market demand. Inventory turnover days for our pharmaceutical distribution business segment remained stable from 2013 to 2014.

Inventory turnover days for our self-operated retail pharmacies business segment were 216.3 days, 195.1 days and 136.1 days for the years ended December 31, 2012, 2013 and 2014, respectively. Inventory turnover days decreased during the Track Record Period primarily because sales of our self-operated retail pharmacy stores continued to increase after the initial ramp-up period.

Inventory turnover days for our pharmaceutical manufacturing business segment were 65.3 days, 52.2 days and 29.5 days for the years ended December 31, 2012, 2013 and 2014, respectively. Inventory turnover days decreased from 2012 to 2014 primarily because we adjusted our production volume to maintain a desirable level of sales and inventory in order to maximize our profitability and because demand for and sales of our products increased as our markets expanded.

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

	As of December 31,		
	2012	2013	2014
Inventory turnover days ⁽¹⁾	40.2	35.9	35.1

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 in the period.

As of April 30, 2015, we had subsequently sold RMB58.5 million, or 84.6%, of our inventories as of December 31, 2014.

Trade and Other Payables

Our trade and other payables are comprised of payables to trade creditors, bills payables, deposits received and other payables and accrued expenses.

FINANCIAL INFORMATION

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

	As of December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Trade payables	57,285	52,692	28,617
Bills payables	60,797	122,558	107,524
Deposits received from customers	7,469	8,840	16,337
Salaries, wages and welfare payables.	7,482	9,637	9,120
Other tax payables ⁽¹⁾	2,088	6,663	8,080
Advance from a third party	6,500	—	—
Other payables and accrued expenses	9,161	8,576	14,654
	150,782	208,966	184,332

Note:

(1) Other tax payables primarily consist of payables of value-added taxes, business taxes and urban construction taxes.

Our trade and other payables increased by 38.6% from RMB150.8 million as of December 31, 2012 to RMB209.0 million as of December 31, 2013, primarily due to (i) an increase of RMB61.8 million in bills payables as we elected to use more bills to settle trade payments; (ii) an increase of RMB4.6 million in other tax payables; (iii) an increase of RMB2.2 million in salaries, wages and welfare payables due to the general increase in our employee compensation; and (iv) an increase of RMB1.4 million in deposits received from customers in line with the growth in our sales. The above increases were partially offset by a decrease of RMB6.5 million in advance from a third party, which was repaid in full in 2013, a decrease of RMB4.6 million in trade payables because we used more bills to settle payment and a decrease of RMB0.6 million in other payables and accrued expenses as a result of a decrease in professional fees we incurred in 2013 compared to 2012. Our trade and other payables decreased by 11.8% from RMB209.0 million as of December 31, 2013 to RMB184.3 million as of December 31, 2014, primarily due to (i) a decrease of RMB24.1 million in trade payables and a decrease of RMB15.0 million in bills payables as a result of the decrease in our pharmaceutical distribution business's purchases from pharmaceutical wholesalers which usually grant us credit periods, compared to pharmaceutical manufacturers which generally require payment upon purchase; and (ii) our increased prepayments made to suppliers of products with high market demand during the year, which reduced our trade payables. The decrease in bills payables was in part because we elected to reduce our use of bank bills. To obtain a credit limit from a bank for bills payable, we are required to provide a combination of cash deposits and corporate guarantees. We reduced our use of bank bills because we wanted to release guarantees from related parties prior to the Listing. The above decreases were partially offset by (i) an increase of RMB7.5 million in deposits received from customers as a result of the implementation of "Remote Prescription Review" system for which we charge prepayments; and (ii) an increase of RMB6.1 million in other payables and accrued expenses as a result of (A) increase in professional and audit fees; and (B) interior decoration costs incurred for warehouses, offices and production facilities; (iii) payables for transportation expenses; and (iv) GSP certification fees we collected on behalf of our franchisees.

FINANCIAL INFORMATION

The table below sets out an aging analysis of our trade payables, which are included in trade and other payables, based on the invoice date and as of the dates indicated.

	As of December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Within 1 month	9,992	9,077	11,184
1 to 3 months	16,225	14,635	4,231
Over 3 months	31,068	28,980	13,202
Total trade payables	57,285	52,692	28,617

Our suppliers generally grant us credit periods ranging from 30 to 90 days.

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

	As of December 31,		
	2012	2013	2014
Trade payable turnover days ⁽¹⁾	37.7	31.2	22.3

Note:

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

Our trade payable turnover days decreased from 37.7 days in 2012 to 31.2 days in 2013 and further to 22.3 days in 2014, primarily due to our increased use of commercial bills, which resulted in an increase in our bills payable but a decrease in our trade payables.

Trade payable turnover days for our pharmaceutical distribution business segment were 34.0 days, 27.2 days and 19.5 days for the years ended December 31, 2012, 2013 and 2014, respectively. Trade payable turnover days decreased from 2012 to 2013 primarily due to (i) our increased use of bank bills, which resulted in increases in our bills payables but decreases in trade payables; and (ii) our increased advance payments to suppliers, which reduced trade payables. Trade payable turnover days decreased from 2013 to 2014 primarily because our trade payables as of December 31, 2014 decreased compared with December 31, 2013, which, in turn, was primarily as a result of (i) the decrease in our purchases from pharmaceutical wholesalers which usually grant us credit periods, compared to pharmaceutical manufacturers which generally require payment upon purchase; and (ii) our increased prepayments made to suppliers of products with high market demand during the year, which reduced trade payables.

Trade payable turnover days for our self-operated pharmacies business segment were 4.5 days, 30.7 days and 35.7 days for the years ended December 31, 2012, 2013 and 2014, respectively. Trade payable turnover days were low in 2012 because (i) most products were sourced internally from Chengdu Kexun; and (ii) we had a limited number of self-operated retail pharmacy stores in 2012. As most of those stores

FINANCIAL INFORMATION

were in the initial ramp-up period and sales were relatively small, third party suppliers often required cash payment and were not willing to grant us longer credit periods due to the small scale of our self-operated retail pharmacies business. Trade payable turnover days increased significantly from 2012 to 2013 because (i) we acquired Baixintang at the end of 2013 and included all of the trade payables of the retail pharmacy stores under Baixintang in our trade payable balance as of December 31, 2013. Excluding the effect of Baixintang, trade payable turnover days for 2013 would have been 17.1 days; and (ii) Chunshengtang was able to obtain longer credit periods as a result of its increased business scale. In addition, its trade payables also increased in line with its increased sales during 2013. Trade payable turnover days increased for the year ended December 31, 2014 compared with the year ended December 31, 2013 primarily because, as we acquired Baixintang in December 2013, we consolidated trade payables of the retail pharmacy stores under Baixintang only in the ending trade creditor balance for 2013 but in both the beginning and the ending trade creditor balance for 2014.

Trade payable turnover days for our pharmaceutical manufacturing business segment were 63.1 days, 71.3 days and 38.8 days for the years ended December 31, 2012, 2013 and 2014, respectively. Trade payable turnover days increased from 2012 to 2013 primarily because of increases in trade payables, which in turn were due to increases in the credit limits and credit periods our suppliers granted us. We were able to obtain higher credit limits and longer credit periods as a result of our well-established relationships with our suppliers. We utilized the enhanced credit terms and extended our payables period so that we could prioritize our cash resources towards further developing our business. Trade payable turnover days then decreased for the year ended December 31, 2014 primarily because we agreed to make our payment within a shorter period in exchange for discounts in raw material purchase prices from our suppliers.

As of April 30, 2015, we had subsequently settled RMB17.1 million, or 59.6%, of our trade payables outstanding as of December 31, 2014.

Other Non-Current Assets

The table below sets forth a breakdown of other non-current assets as of the dates indicated:

	As of December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits			
— Deposits for property plant and equipment.	—	10,000	11,657
— Deposits for acquisition of retail pharmacy stores	8,642	7,541	5,520
— Deposit paid for potential acquisition	—	30,000	—
— Guarantee deposit	—	5,000	5,000
	<u>8,642</u>	<u>52,541</u>	<u>22,177</u>

FINANCIAL INFORMATION

As of December 31, 2013, we had RMB30.0 million deposit paid for potential acquisition pursuant to a preliminary agreement we entered into in December 2013 with Independent Third Parties to acquire a 100% interest in a pharmaceutical company based in Hebei Province. This preliminary agreement was subsequently cancelled in March 2014 as the parties did not reach final agreement on the proposed acquisition and this deposit was fully refunded in 2014. We had RMB10.0 million of deposits for property, plant and equipment as of December 31, 2013, which represented prepayment we made to Chengdu Fudun Technology Limited (成都富頓科技有限公司) for the equipment relating to our “Remote Prescription Review” system. We had RMB11.7 million of deposits for property, plant and equipment as of December 31, 2014, which represented the deposit for production equipment for our pharmaceutical manufacturing business. We had RMB5.0 million of other deposit we paid to a supplier in Ningxia province to secure supply of some Chinese medicine as of December 31, 2013 and 2014. In addition, we had RMB8.6 million, RMB7.5 million and RMB5.5 million of deposits for acquisition of retail pharmacy stores as of December 31, 2012, 2013 and 2014, respectively.

CAPITAL COMMITMENTS AND EXPENDITURES

Capital Commitments and Operating Lease Commitments

The table below sets out our capital commitments outstanding as of the dates indicated, which are not provided for in the financial statements.

	As of December 31,		
	2012	2013	2014
	<i>(RMB)</i>		
Commitments for the acquisition of property, plant and equipment:			
– Contracted but not provided for	–	6,355	4,999

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

	As of December 31,		
	2012	2013	2014
	<i>(RMB)</i>		
Operating lease commitments			
Within 1 year	3,675	9,047	9,026
After 1 year but within 5 years	11,422	23,153	16,875
	15,097	32,200	25,901

Our operating lease commitments represent the office leases of our Group. The initial lease terms are typically between one and five years, with an option to renew when all terms are renegotiated. For the years ended December 31, 2012, 2013 and 2014, our operating lease commitments amounted to RMB15.1 million, RMB32.2 million and RMB25.9 million, respectively.

FINANCIAL INFORMATION

Capital Expenditures

Historical

During the Track Record Period, our principal capital expenditure consisted of expenditures on (i) buildings, leasehold improvements, machinery and equipment, furniture and other office equipment, motor vehicles, construction in progress; and (ii) intangible assets. For the years ended December 31, 2012, 2013 and 2014, we incurred capital expenditures in the amounts of approximately RMB4.8 million, RMB12.7 million and RMB30.7 million, respectively.

The following table sets out our historical capital expenditures during the periods indicated:

	As of December 31,		
	2012	2013	2014
	<i>(RMB'000)</i>		
Property, plant and equipment	3,870	10,523	29,314
Intangible assets.	898	2,174	1,365
Total	<u>4,768</u>	<u>12,697</u>	<u>30,679</u>

Our capital expenditures for 2012 primarily related to interior decoration and furniture and other office equipment for self-operated retail pharmacy stores.

Our capital expenditures for 2013 primarily related to interior decoration and furniture and other office equipment for self-operated retail pharmacy stores, and construction in progress for our new factory.

Our capital expenditures for 2014 primarily related to our purchase of fixed assets for our “Remote Prescription Review” system and the renovation and interior decoration for our new warehouse, corporate offices and the construction, interior decoration and purchase of equipment for the production facilities of our pharmaceutical manufacturing business.

Planned

We currently expect that our capital expenditures for the years ending December 31, 2015 and 2016 will be approximately RMB94.0 million and RMB131.9 million, which are expected to primarily relate to establishing and acquiring self-operated retail pharmacy stores, establishing logistics centers, constructing plant and warehouse, upgrading the refrigerating facilities and upgrading the on-line pharmacist system and equipment. We intend to fund our planned capital expenditures through a combination of the net proceeds from the Global Offering, bank borrowings and cash flows from operating activities.

FINANCIAL INFORMATION

INDEBTEDNESS

The following table sets out our indebtedness as of the dates indicated:

	As of December 31,			As of
	2012	2013	2014	April 30, 2015
	<i>(RMB'000)</i>			
Bank Borrowings				
— secured	14,000	45,000	20,000	10,000
— unsecured	10,000	30,000	30,000	30,000
Total bank borrowings	24,000	75,000	50,000	40,000
Advance from a third party	6,500	—	—	—
Convertible redeemable preferred shares	207,416	218,090	257,112	264,898
Amount due to the Controlling Shareholder	8,511	—	—	2,321
Amount due to a director	—	—	210	210
Amount due to other related parties . .	405	2,029	232	232
Total borrowings	246,832	295,119	307,554	307,661

As of December 31, 2012, 2013 and 2014 and April 30, 2015, which is the latest practicable date for purposes of the indebtedness statement in this prospectus, we had outstanding indebtedness of RMB246.8 million, RMB295.1 million, 307.6 million and RMB307.7 million, respectively.

As of December 31, 2012, 2013 and 2014, our outstanding bank borrowings were RMB24.0 million, RMB75.0 million and RMB50.0 million, respectively. As of April 30, 2015, being the latest practicable date for purposes of the indebtedness statement in this prospectus, we had total committed bank loan facilities of RMB40 million, all of which had been utilized. Our outstanding bank borrowings increased from December 31, 2012 to December 31, 2013 primarily as a result of our working capital needs. Our outstanding bank borrowings decreased from December 31, 2013 to December 31, 2014 primarily because we wanted to release guarantees and security provided by related parties prior to the Listing.

All bank loans bear interest at floating interest rates of 7.2% to 7.9% per annum, 6.0% to 7.8% per annum and 5.6% to 7.8% per annum for the years ended December 31, 2012, 2013 and 2014, respectively, which approximate to market rates of interest. As of December 31, 2012, 2013 and 2014, the weighted average effective interest rates of our secured bank borrowings were at 6.86%, 6.86% and 6.86%, respectively.

At of December 31, 2012, 2013 and 2014 and April 30, 2015, the bank loans were secured by:

- (i) As of December 31, 2012 and 2013, bank loans in the total amount of RMB14.0 million, RMB35.0 million, respectively, were secured by (1) the buildings owned by subsidiaries with carrying amount of RMB42.2 million and RMB43.2 million; (2) prepaid land leases held by subsidiaries with carrying amount RMB1.0 million and RMB2.6 million; (3) corporate guarantee from a subsidiary; and (4) personal guarantee from the Controlling Shareholder, Mr. Chen;

FINANCIAL INFORMATION

- (ii) As of December 31, 2013, 2014 and April 30, 2015, bank loans in the total amount of RMB10.0 million, RMB10.0 million and RMB10.0 million, respectively, were secured by (1) the trade receivables balances of RMB0.9 million, RMB47.9 million and RMB47.9 million, respectively; (2) corporate guarantee by a subsidiary; and (3) personal guarantee from the Controlling Shareholder, Mr. Chen;
- (iii) As of December 31, 2014, bank loan amounted to RMB10.0 million was secured by the pledged bank deposit of RMB10.3 million;
- (iv) As of December 31, 2012 and 2013, bank loans in the total amount of RMB10.0 million and RMB10.0 million, respectively, were secured by (1) the land and building owned by a related company, Chengdu Yiming Investment Management Co., Ltd.; and (2) corporate guarantee by a subsidiary; and (3) personal guarantee from the Controlling Shareholder, Mr. Chen; and as of December 31, 2014 and April 30, 2015, this bank loan was secured by (1) the land and building owned by a related company, Chengdu Yiming Investment Management Co., Ltd.; and (2) corporate guarantee by a subsidiary; and
- (v) As of December 31, 2013, 2014 and April 30, 2015, bank loan in the total amount of RMB20.0 million, RMB20.0 million and RMB20.0 million, respectively, was secured by (1) the land and building owned by a related company, Chengdu Yiming Investment Management Co., Ltd. and (2) corporate guarantee by an Independent Third Party, Wuhan Taifu Pharmaceutical Company Limited.

We intend to discontinue the personal guarantees provided by the Controlling Shareholder prior to the Listing and substitute them with guarantees provided by our subsidiaries or Independent Third Parties. We intend to release the corporate guarantee by Wuhan Taifu Pharmaceutical Company Limited prior to the Listing.

These loans contain customary covenants and restrictions for facilities of this type in the PRC, including restrictions on disposal of the borrower's material assets through assignment, leasing or providing guarantee unless otherwise agreed by the lender in writing and obligations to make timely written notice to the lender for any material development of the borrower's operations and providing timely report to lenders for the use of proceeds.

Except as disclosed above in this prospectus, the agreements under our banking borrowings do not contain any material covenants that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future.

Except as disclosed herein, we did not have any other material borrowings or indebtedness, hire purchase commitments, mortgages and charges, or other material contingent liabilities as of April 30, 2015.

Our Directors confirm that we did not have any material default in payment of trade or non-trade payables or bank borrowings, nor did we breach any material finance covenants during the Track Record Period. Our Directors confirm that we do not have any plan to raise material external debt financing as of the date of this prospectus.

Except as described above, as of April 30, 2015, being the latest practicable date for the purpose of the indebtedness statement in this prospectus, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

FINANCIAL INFORMATION

Related Party Transactions

The table below sets forth our material related party transactions during the Track Record Period:

	Amounts owed to our Group by related parties			Amounts owed by our Group to related parties		
	As of December 31,			As of December 31,		
	2012	2013	2014	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to Pa Shun Holdings Limited	—	—	—	—	(1,632)	—
Amount due to Wuhan Baixin Pharmaceutical Co., Ltd.	—	—	—	(405)	(366)	—
Amount due to Hubei Bai Xin Food Company Limited	—	—	—	—	(31)	(24)
Amount due from Wuhan Wantong Investment Company Limited ⁽¹⁾	97	546	—	—	—	(88)
Amount due from Wuhan Bai Xin Biotechnology Company Limited ⁽¹⁾	2,125	—	—	—	—	—
Amount due from/(to) Hainan Baixin Pharmaceutical Co., Ltd. ⁽²⁾ .	1,401	1,839	—	—	—	—
Amount due from Wuhan Bai Xin Environmental Energy Technology Company Limited ⁽¹⁾	8,000	—	—	—	—	—
Amount due from Chengdu Yiming Investment Management Co., Ltd., an entity controlled by Wu Dong Wang ⁽¹⁾	3,079	—	340	—	—	—
Amount due from Wuhan Taifu Pharmaceutical Company Limited ⁽²⁾	—	—	—	—	—	—
Amount due to Wuhan Bai Xin Zheng Yuan Biotechnology Engineering Company Limited	—	—	—	—	—	(120)
Amount due from Wu Dong Wang, a relative of the Controlling Shareholder	3,000	—	—	—	—	—
Amount due from/(to) the Controlling ⁽¹⁾ Shareholder, Mr. Chen Yenfei	—	1,359	675	(8,511)	—	—
Amount due from/(to) a director, Mr. Su Si	92	247	—	—	—	(210)
	<u>17,794</u>	<u>3,991</u>	<u>1,015</u>	<u>(8,916)</u>	<u>(2,029)</u>	<u>(442)</u>

Notes:

(1) These related party transactions are non-trade in nature.

(2) These related party transactions are trade in nature.

Unless otherwise noted, all the related parties listed in the table above are entities controlled by the Controlling Shareholder. The amounts due from/to the related parties set forth in the table above are unsecured, interest-free and have no fixed repayment terms. No provisions for bad or doubtful debts were made in respect of the amounts due from related parties.

FINANCIAL INFORMATION

Amounts due from Wuhan Wantong Investment Company Limited, Wuhan Bai Xin Biotechnology Company Limited and Chengdu Yiming Investment Management Co., Ltd. during the Track Record Period represented advances we made to them for their working capital purposes. Amounts due from Hainan Baixin Pharmaceutical Co., Ltd. and Wuhan Taifu Pharmaceutical Company Limited during the Track Record Period represented purchase price payable for products we sold to them. Amount due from Wuhan Bai Xin Environmental Energy Technology Company Limited represented an advance we made to it for its investment in an environmental project. Amounts due from a relative of the Controlling Shareholder represented consideration for our transfer of shares of Yiming Investment Management Co., Ltd. to this person. Amounts due from the Controlling Shareholder and a director during the Track Record Period represented cash advances we made to them to carry out business on behalf of our Group.

Amounts due to Pa Shun Holdings Limited, Wuhan Baixin Pharmaceutical Co., Ltd. and Hubei Bai Xin Food Company Limited during the Track Record Period represented advances we received from these related parties for our working capital purposes. Amount due to Hainan Baixin Pharmaceutical Co., Ltd. represented purchase price for products we procured from it. Amounts due to the Controlling Shareholder, Mr. Chen, represented consideration for our acquisition of Chengdu Kexun and Chengdu Pashun Chain Store.

Amounts due to Wuhan Bai Xin Zheng Yuan Biotechnology Engineering Company Limited as of December 31, 2014 represented purchase price for food products we procured from it for our self-operated retail pharmacy stores and franchise retail pharmacy stores.

Our Directors confirm that these transactions were conducted on normal commercial terms and were not less favorable to us than terms available to or from Independent Third Parties. In addition, our Directors confirm that such transactions would not distort our historical results of operations or make the historical results not reflective of our future performance.

We intend to fully settle all amounts due to and from shareholders, directors and related parties set forth in the table above prior to the Listing.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities or guarantees. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on the information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated. Since the Latest Practicable Date, there has been no material adverse change in our contingent liabilities.

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.

FINANCIAL INFORMATION

LISTING EXPENSES

We have incurred legal, professional and other fees with respect to the Listing. In accordance with relevant accounting standards, listing related fees that are directly attributable to issuance of new Shares are recorded as prepaid expenses, which will be deducted from equity upon the Listing. The remaining listing related fees are charged to statements of profit or loss and other comprehensive income. We expect that the total amount of listing related expenses, including underwriting commission, would be approximately RMB40.5 million (assuming the Over-allotment Option is not exercised and the Offer Price is HK\$1.20 per Share, being the mid-point of the Offer Price range stated on the cover of this prospectus). We expect listing expenses excluding underwriting commission would be approximately RMB33.3 million, of which RMB10.9 million will be charged to our consolidated statements of profit or loss for the year ending December 31, 2015. We do not expect these expenses to have a material impact on our business and results of operations for the year ending December 31, 2015.

FINANCIAL RATIOS

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

	As of/for the year ended December 31,		
	2012	2013	2014
Gross margin ⁽¹⁾	18.2%	18.9%	21.5%
Net profit margin ⁽²⁾	1.3%	7.9%	5.4%
Current ratio ⁽³⁾	1.2	1.1	1.2
Quick ratio ⁽⁴⁾	1.0	1.0	1.1
Return on equity ⁽⁵⁾	13.1%	45.0%	25.5%
Return on total assets ⁽⁶⁾	1.8%	9.2%	6.5%
Gearing ratio ⁽⁷⁾	33.1%	53.2%	27.6%
Debt to equity ratio ⁽⁸⁾	net cash	6.8%	net cash
Interest coverage ratio ⁽⁹⁾	8.7	14.9	9.0

Notes:

- (1) Gross margin is calculated by dividing gross profit by turnover for the period.
- (2) Net profit margin is calculated by dividing net profit by turnover for the period.
- (3) Current ratio is calculated by dividing total current assets by total current liabilities as of the end of the period.
- (4) Quick ratio is calculated by dividing current assets (net of inventories) by current liabilities as of the end of the period.
- (5) Return on equity attributable to Shareholders is calculated by dividing net profit for the period attributable to Shareholders by Shareholders' equity as of the end of the period.

FINANCIAL INFORMATION

- (6) Return on total assets is calculated by dividing net profit for the period by total assets as of the end of the period.
- (7) Gearing ratio is calculated by dividing total interest-bearing borrowings by total equity as of the end of the period.
- (8) Debt to equity ratio is calculated by dividing net debt by total equity as of the end of the period. Net debt represents all interest-bearing borrowings less cash and cash equivalents.
- (9) Interest coverage ratio equals our profit before interest and tax of the period divided by finance costs of the same period.

Gross Margin and Net Profit Margin

For details on our gross margin and net profit margin, see “— Components of Our Statements of Profit or Loss — Cost of Sales, Gross Profit and Gross Margin” and “ — Year to Year Comparison of Results of Operations.”

Current ratio

Our current ratio was 1.2, 1.1 and 1.2 as of December 31, 2012, 2013 and 2014, respectively. The current ratio decreased from 1.2 as of December 31, 2012 to 1.1 as of December 31, 2013 primarily due to the increase in trade and other payables and bank borrowings. The increase to 1.2 as of December 31, 2014 was primarily due to a decrease in bank borrowings and an increase in pledged bank deposits.

Quick ratio

Our quick ratio was 1.0, 1.0 and 1.1 as of December 31, 2012, 2013 and 2014, respectively. Our quick ratio remained stable as of December 31, 2013 compared with December 31, 2012. Our quick ratio increased from 1.0 as of December 31, 2013 to 1.1 as of December 31, 2014, primarily due to a decrease in bank borrowings.

Return on equity

Our return on equity attributable to Shareholders was 13.1%, 45.0% and 25.5% as of December 31, 2012, 2013 and 2014, respectively. The increase from 13.1% as of December 31, 2012 to 45.0% as of December 31, 2013 was primarily due to the increase in our net profit. The decrease to 25.5% as of December 31, 2014 was due to the decrease in our net profit and the increase in our Shareholders' equity.

Return on total assets

Our return on total assets was 1.8%, 9.2% and 6.5% as of December 31, 2012, 2013 and 2014, respectively. The increase from 1.8% as of December 31, 2012 to 9.2% as of December 31, 2013 was primarily due to the increase in our net profit. The decrease to 6.5% as of December 31, 2014 was primarily due to the decrease in our net profit.

FINANCIAL INFORMATION

Gearing ratio

Our gearing ratio was 33.1%, 53.2% and 27.6% as of December 31, 2012, 2013 and 2014, respectively. The gearing ratio increased from 33.1% as of December 31, 2012 to 53.2% as of December 31, 2013 primarily due to increases in our short-term borrowings. Our gearing ratio decreased to 27.6% as of December 31, 2014 primarily because the increase in our net profit and the decrease in our bank borrowings.

Debt to equity ratio

We had a net cash position as of December 31, 2012, and our debt to equity ratio was 6.8% as of December 31, 2013 as a result of the increase in our short-term bank borrowings. We had a net cash position as of December 31, 2014.

Interest coverage ratio

Our interest coverage ratio was 8.7, 14.9 and 9.0 as of December 31, 2012, 2013 and 2014, respectively. Our interest coverage ratio increased from 8.7 as of December 31, 2012 to 14.9 as of December 31, 2013 primarily because of the increase in our profit before interest and tax, which in turn was the result of an increase in our gross profit and smaller adjustments to the fair value of the Preferred Shares in 2013 compared with 2012. Our interest coverage ratio then decreased to 9.0 as of December 31, 2014 primarily due to an increase in finance costs resulting from discount costs relating to our bills receivable and the increase in interest expense relating to bank borrowings.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in our financial and trading position since December 31, 2014 (being the date to which our latest consolidated audited financial results were prepared) up to the date of this prospectus.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2014, 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

In the normal course of business, we are exposed to various types of variety of financial risks: credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Credit Risk

Credit risk is primarily attributable to trade and other receivables, pledged bank deposits, cash at banks and amounts due from shareholders, directors and related parties. Our credit risk is primarily attributable to cash at banks and amounts due from subsidiaries. We have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

FINANCIAL INFORMATION

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure the follow-up action is taken to recover overdue debts. We grant credit limits to certain customers in consideration of their payment history and business performance. In addition, we review the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

Our exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. As of December 31, 2012, 2013 and 2014, 0.8%, 0.3% and 2.0% of the trade and other receivables were due from our largest customer, and 28.2%, 16.1% and 30.6% of the trade and other receivables were due from our five largest customers, respectively.

Our cash is deposited with banks with sound credit ratings and we have exposure limit to any single financial institution. Given the financial institutions' high credit ratings, we do not expect any of these financial institutions to fail to meet their obligations.

The credit risk on our bank bills receivables is limited because the counterparties are banks with high credit rating.

With respect to credit risk arising from amounts due from related parties, our exposure to credit risk arising from default of the counterparties is limited as the counterparties have good history of repayment and we do not expect to incur a significant loss for uncollected amounts due from related parties.

Other than the concentration of credit risk on the amounts due from subsidiaries and cash and cash equivalents, we do not have any other significant concentration of credit risk.

Our credit risk arising from amounts due from subsidiaries is limited as the counterparties have good history of repayment and we do not expect to incur a significant loss for uncollected amounts due from subsidiaries.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in our consolidated statements of financial position and our statements of financial position.

We do not provide any guarantees which would expose us to credit risk.

FINANCIAL INFORMATION

Liquidity Risk

Individual operating entities within our Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by our board when the borrowings exceed certain predetermined levels of authority. Our policy is to regularly monitor our liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer term.

The contractual undiscounted cash flows of bank borrowings are disclosed in Note 19 of Appendix I to this prospectus. Save for the above, all other financial liabilities disclosed in the consolidated statements of financial position are required to be settled within one year or on demand, and the total contractual undiscounted cash flows of these financial liabilities are not materially different from their carrying amounts as of December 31, 2012, 2013 and 2014.

Interest Rate Risk

Our interest rate risk arises primarily from cash at banks, pledged bank deposits, bank borrowings. Cash at banks and pledged bank deposits issued at variable rates expose our Group to cash flow interest rate risk. Bank borrowings issued at various rates and at fixed rates expose our Group to cash flow interest rate risk and fair value interest rate risk, respectively.

Our Group and us do not anticipate significant impact to cash at banks and the pledged bank deposits because the interest rates of bank deposits are not expected to change significantly.

The interest rates and terms of repayment of bank loans of our Group are disclosed in Note 19 of Appendix I to this prospectus. Our Group normally borrows short-term bank loans which have short-term maturity within one year in order to limit its exposure to interest rate risk. Our Group's interest rate profiles as monitored by the management is set out as below.

FINANCIAL INFORMATION

The following table sets forth the interest rate profile of our interest-bearing financial instruments as of the periods indicated:

	As of December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The Group			
Fixed rate instruments			
Financial liabilities			
— bank loans	—	(5,000)	(10,000)
Variable rate instruments			
Financial liabilities			
— bank loans	(24,000)	(70,000)	(40,000)
Financial assets			
— cash at banks	34,056	62,771	66,947
— pledged bank deposits	15,382	53,977	74,180
Total net deposits	25,438	41,748	91,127

	As of December 31,		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The Company			
Variable rate instruments			
Financial asset			
— Cash at banks	11,163	9,021	2

As of December 31, 2012, 2013 and 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates for bank borrowings and cash at banks and pledged bank deposits, with all other variables held constant, would increase/decrease our profit/(loss) for the year after tax and retained profits by approximately RMB191,000, RMB351,000 and RMB758,000 respectively.

The sensitivity analysis above indicates the instantaneous change in our Group's profit after tax and retained profits and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to re-measure those financial instruments held by our Group which expose our Group to interest rate risk at the end of reporting period. The analysis is performed on the same basis for the years ended December 31, 2012, 2013 and 2014, respectively.

FINANCIAL INFORMATION

Foreign Exchange Risk

For presentation purposes, our financial information is shown in RMB. The companies within our Group, whose functional currencies are different from RMB, have translated their financial information into RMB for combination purpose. As of December 31, 2012, 2013 and 2014, all companies within our Group have no material financial instruments that were denominated in a currency other than the respective functional currency in which they are measured and accordingly we have no exposure to foreign currency risk.

Our functional currency is USD, We did not have material assets or liabilities that are denominated in a currency other than our functional currency and accordingly we have no significant exposure of foreign currency risk as of December 31, 2012, 2013 and 2014.

DIVIDEND POLICY

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Subject to the factors described above, our Board of Directors intends to recommend at the relevant shareholders meetings an annual dividend of no less than 30% of our future net profit available for distribution to the shareholders in the foreseeable future.

FINANCIAL INFORMATION

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 of December 31, 2014 as if the Global Offering had taken place on December 31, 2014.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as of December 31, 2014⁽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⁾	Unaudited pro forma adjusted net tangible assets per share⁽⁴⁾
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB)</i>	<i>(HK\$)</i>
Based on an Offer Price of HK\$1.00 per Offer Share	152,900	176,166	329,066	0.33	0.41
Based on an Offer Price of HK\$1.40 per Offer Share	152,900	256,166	409,066	0.41	0.51

Notes:

- (1) The consolidated net tangible assets attributable to equity shareholders of the Company as of December 31, 2014 is based on consolidated net assets attributable to equity shareholders of our Company of RMB180,219,000 as of December 31, 2014 with an adjustment for intangible assets of RMB6,024,000, goodwill of RMB1,295,000 and prepayment for intangible asset of RMB20,000,000 as of December 31, 2014, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the estimated Offer Prices of HK\$1.00 and HK\$1.40, respectively, being the lower end and higher end of the Offer Price range, after deduction of the underwriting fees and other related expenses payable by our Company without taking into account any Shares that may be issued upon exercise of Over-Allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to our Company as described in note (2) above and on the basis that a total of 1,000,000,000 Shares were in issue assuming that the Global Offering was completed on December 31, 2014 (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalization Issue). Without taking into account any Shares which may be offered for sale upon exercise of the Over-Allotment Option.
- (4) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company per Share are converted from or into Hong Kong dollars at an exchange rate of HK\$1 to RMB0.80. No representation is made that HK\$ amount have been, could have been or may be converted into RMB, or vice versa, at that rate.
- (5) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2014.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Our Business Strategies” in this prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$249.4 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses in connection with the Global Offering and assuming the initial public Offer Price of HK\$1.20 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus. If the Offer Price is fixed at the high-end of the indicative Offer Price range being HK\$1.40 per Share, the net proceeds will increase by approximately HK\$48.5 million. If the Offer Price is fixed at the low-end of the indicative Offer Price range, being HK\$1.00 per Share, the net proceeds will decrease by approximately HK\$48.5 million. If the Over-allotment Option is exercised in full, we estimate that our additional net proceeds from the offering of these additional Shares will be approximately HK\$43.7 million, after deducting the underwriting commissions and our estimated expenses, assuming an Offer Price of HK\$1.20 per Share.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 48.6%, or HK\$121.3 million, is expected to be used for our planned logistics center in Chengdu, among which approximately 49.5%, or HK\$60.0 million, is expected to be used for facility construction and leasehold improvements, and approximately 50.5%, or HK\$61.3 million, is expected to be used for the acquisition and installation of equipment and software. We hold the state-owned land use right certificate to occupy one parcel of land in Jinniu District, Chengdu for the planned logistics center. This logistics center is expected to significantly increase our total storage capacity to support our business expansion plans. We intend to purchase semi-automatic selection systems, which are expected to increase the total throughput, lower costs and enhance our operational efficiency. This logistics center is expected to have a maximum annual throughput of 300,000 tonnes. We also plan to install additional advanced warehousing and logistics equipment in response to our expanded product offerings in order to better serve customer needs. We currently expect to complete the project proposal for the logistics center in July 2015, construct the buildings for the logistics center between September 2015 and April 2016, begin to place purchase orders for relevant equipment in October 2015, install and test equipment and connect utilities between February and June 2016, and complete the project and begin operating the logistics center by the end of July 2016;
- approximately 46.6%, or HK\$116.2 million, is expected to be used primarily to acquire or establish self-operated retail pharmacy stores. We currently intend to acquire or establish 75 to 85 self-operated retail pharmacy stores in Sichuan, Hebei and Hubei provinces by the end of 2016. We currently have no plan to open any additional Japanese-style cosmeceutical stores or self-operated retail pharmacy stores in Chengdu. As of the Latest Practicable Date, we had not identified any acquisition target; and
- approximately 4.8%, or HK\$11.9 million, is expected to be used to fund our working capital and general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into interest-bearing bank accounts, such as demand deposit accounts, with licensed commercial banks and/or authorized financial institutions in Hong Kong.

In the event that the Offer Price is set at the high-end or low-end of the proposed Offer Price range or the Over-allotment Option is exercised, our intended use of proceeds will be increased or decreased on a pro-rata basis.

UNDERWRITING

UNDERWRITERS FOR THE GLOBAL OFFERING

Hong Kong Underwriters

China Everbright Securities (HK) Limited
Innovax Capital Limited

International Underwriters

China Everbright Securities (HK) Limited
Innovax Capital Limited
Pacific Foundation Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offer, our Company is offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting listing of, and permission to deal in, our Shares in issue and our Shares to be issued as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Offer Shares are fully underwritten pursuant to the Hong Kong Underwriting Agreement.

Grounds for termination

The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the Hong Kong Offer Shares are subject to termination. The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled to terminate their obligations under the Hong Kong Underwriting Agreement upon the occurrence of any of the following events by notice to our Company given by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (the “**Termination Time**”) if prior to the Termination Time,

- (a) there shall develop, occur or come into force:
 - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the British Virgin Islands, the Cayman Islands or any other jurisdictions relevant to the Company and its subsidiaries (together, the “**Specific Jurisdictions**”) or any other similar event which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Group; or

UNDERWRITING

- (ii) any change in national, regional, international, financial, military, industrial or economic conditions or prospects, stock market, fiscal or political conditions, regulatory or market conditions and matters and/or disasters in the Specific Jurisdictions or any other similar event which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has or is likely to have a material adverse effect on the business or financial conditions or prospects of our Group; or
- (iii) without prejudice to sub-paragraph (i) of paragraph (a) above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God, or accident) would materially and adversely affect any member of our Group or its shareholders in their capacity as such; or
- (v) any change or development occurs involving a prospective change in taxation or in exchange control in the Specific Jurisdictions to which any member of our Group is subject or the implementation of any exchange controls which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would or might adversely affect any member of our Group or its present shareholders in their capacity as such in a material way; or
- (vi) any litigation or claim of material importance to the business, financial position or operations of our Group being instituted against any member of our Group; or
- (vii) the imposition of economic sanctions, in whatever form in the Specific Jurisdictions; or
- (viii) any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-government regulatory authority, or any court, tribunal, whether national, central, federal, provincial, state, regional, municipal, domestic or foreign, or a political body or organization in any Specific Jurisdictions commencing any investigation or other action, or announcing an intention to investigate or take other action, against any companies of our Group or Director; or
- (ix) order or petition for the winding up of any company of our Group or any composition or arrangement made by any company of our Group with its creditors or a scheme of arrangement entered into by any company of our Group or any resolution for the winding up of any company of our Group or the appointment of a provisional liquidator, receiver or manager over all or any material part of the assets or undertaking of any company of our Group or anything analogous thereto occurring in respect of any company of our Group, which would materially and adversely affect the business and financials of our Group; or

UNDERWRITING

- (x) there comes to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters any information, matter or event which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group which would materially and adversely affect the business and financials of our Group; or
- (xi) any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of our Group or the industry the Group is operating in or the macroeconomics relevant to the Group's operation which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is material.
- (b) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) that any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material or showing any of the obligations or undertakings expressed to be assumed by or imposed on our Company or the covenantors under the Hong Kong Underwriting Agreement not to have been complied with in any respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material; or
- (c) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any breach on the part of our Company or any of the covenantors of any provisions of the Hong Kong Underwriting Agreement in any respect which is considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material; or
- (d) any statement contained in this prospectus, notices, announcements, the submissions, documents or information provided to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal adviser to the Sole Global Coordinator and the Underwriters and any other parties involved in the Global Offering which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or

UNDERWRITING

- (e) matters have arisen or have been discovered which would, if this prospectus, notices, announcements, was to be issued at that time, constitute, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), a material omission of such information; or
- (f) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or advices and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or
- (g) our Company withdraws this prospectus (and/or any other documents issued or used necessary for the Global Offering) or the Global Offering.

The International Placing

In connection with the International Placing, it is expected that our Company will enter into the International Underwriting Agreement with the International Underwriters. It is expected that upon the entering into the International Underwriting Agreement, the International Placing will be fully underwritten. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters are expected to agree to subscribe or procure purchasers to subscribe for the International Placing Shares being offered pursuant to the International Placing. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, our Company will make similar undertakings as those given pursuant to the Hong Kong Underwriting Agreement as described in “Undertakings” below in this section.

Commission and expenses

The Underwriters will receive a commission of 3.0% of the aggregate Offer Price of the Offer Shares. In consideration of the Sole Sponsor’s services in sponsoring the Global Offering, the Sole Sponsor will also receive a financial advisory fee. Such fee and commission, together with the Stock Exchange listing fee, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering which are currently estimated to be approximately HK\$40.5 million in aggregate (assuming an Offer Price of HK\$1.20 per Offer Share (being the midpoint of the indicative Offer Price of HK\$1.00 to HK\$1.40 per Offer Share)), are to be borne by us, without taking into account the commissions and expenses relating to the exercise of Over-allotment Option.

UNDERWRITING

Undertakings

- (A) Each of the Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that, save for any lending of Shares by Praise Treasure pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, none of the Controlling Shareholders will, and will procure that none of their associates will:
- (a) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six Month Period**”), (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above; or (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above, in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other companies of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);
 - (b) he or it will not, during the period of six months commencing on the date on which the First Six month Period expires and including, the date that is six months after the end of the First Six month Period (the “**Second Six Month Period**”), enter into any of the transactions specified in paragraphs (a)(i), (a)(ii) and (a)(iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he or it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, in any of the companies controlled by him or it and/or any of his or its associate which owns such Shares or interests as aforesaid; and
 - (c) until the expiry of the Second Six Month period, in the event that he or it enters into any of the transactions specified in paragraphs (a)(i), (a)(ii) or (a)(iii) above or offers to or agrees to or announces any intention to effect any such transaction, he or it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

UNDERWRITING

The restrictions in this paragraph (A) shall not apply to any Shares which the Controlling shareholders or any of its or his associates may acquire or become interested in after the Global Offering.

- (B) Without prejudice to above, each of the Controlling Shareholders undertakes and covenants with our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that:
- (a) save with the prior written consent from the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and to the extent as allowed under the Listing Rules, during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is 12 months from the Listing Date, he or it shall not and shall procure that none of his or its associates shall pledge or charge or create any other rights or encumbrances in any Shares or any interest therein owned by him or it or any of their associates or in which he or it or any of their associates is, directly or indirectly, interested immediately following completion of the Global Offering (or any other Shares or securities of or interest in our Company arising or deriving therefrom as a result of capitalization issue or scrip dividend or otherwise) or any share or interest in any company controlled by him or it or any of their associates which is the beneficial owner (directly or indirectly) of such Shares or interest therein as aforesaid (or any other shares or securities of or interest in the company arising or deriving therefrom as a result of capitalization issue or scrip dividend or otherwise); and
 - (b) in the event that notification is given to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), when he or it or any of their associates shall pledge, charge or create any encumbrance or other right or any of the Shares or interests referred to in paragraph (a) above, he or it shall give prior written notice of not less than two business days to the Stock Exchange, our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) giving details of the number of Shares, shares in the company which is the beneficial owner of such Shares, or the interests as aforesaid, the identities of the pledgee or person (the “**Mortgagee**”) in favour of whom the pledge, charge, encumbrance or interest is created and further if he or it or any of their associates is aware of or receives indications or notice, either verbal or written, from the Mortgagee that the Mortgagee will dispose of or transfer any of the Shares or interests referred to in paragraph (a) above, he or it will immediately notify the Stock Exchange, the Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in writing of such indications and provide details of such disposal or transfer to the Stock Exchange, the Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) as they may require.

Our Company undertakes and covenants with the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that our Company shall forthwith inform the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Stock Exchange in writing immediately after it has been informed of the matters referred to in paragraph (b) above and our Company shall, if so required by the Stock Exchange or the Listing Rules, disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

UNDERWRITING

(C) Except for the offer of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the issue and allotment of Shares pursuant to the Capitalization Issue or the exercise of share options to be granted under the Share Option Scheme as disclosed in this prospectus, during the First Six Month Period, our Company hereby undertakes to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters not to, and to procure each company of our Group not to, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other companies of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other company of our Group, as applicable); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other companies of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such companies of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such companies of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the Second Six Month Period, our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

UNDERWRITING

SOLE BOOKRUNNER'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Underwriters will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Offer Shares. Particulars of these commissions and expenses are set forth in “Commissions and expenses” above in this section. Save as disclosed above, none of the Sole Global Coordinator, the Sole Bookrunner and the Hong Kong Underwriters are interested legally or beneficially in shares of any of our Group’s members or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of its members nor any interest in the Global Offering.

MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on or around Friday, June 12, 2015, and in any event, not later than Monday, June 15, 2015.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$1.40 per Offer Share and is expected to be not less than HK\$1.00 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where it considers appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of our Company, reduce the indicative Offer Price range below that as stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer, cause there to be published on the Stock Exchange's website at www.hkexnews.hk notice of reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed and will lapse.

Announcement of the final Offer Price, together with indication of the level of interests in the International Placing and the results of application under the Hong Kong Public Offer and basis of allocation of the Hong Kong Offer Shares is expected to be published on Thursday, June 18, 2015.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.40 per Offer Share and is expected to be not less than HK\$1.00 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offer as set out above. Prospective investors should be aware that the Offer Price as determined on the Price Determination Date may be lower than the indicative Offer Price as stated in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Applicants under the Hong Kong Public Offer should pay, on application, the maximum price of HK\$1.40 per Offer Share plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%. That means a total of HK\$2,828.22 is payable for every board lot of 2,000 Shares. The Application Forms have tables showing the exact amount payable for certain multiples of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$1.40 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in “How to Apply for Hong Kong Offer Shares” in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFER

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offer is conditional upon:

1. Listing

The Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of dealings in the Shares on the Stock Exchange.

2. Underwriting Agreements

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated in accordance with the terms thereof; and
- (ii) the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date.

3. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date.

If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed “Refund of your money” in the relevant Application Forms.

In the meantime, the application monies will be held in one or more separate bank accounts with the receiving bank or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offer. A total of initially 250,000,000 Offer Shares will be made available under the Global Offering. Among these Offer Shares, 225,000,000 International Placing Shares (subject to re-allocation and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the International Placing. The remaining 25,000,000 Hong Kong Offer Shares (subject to reallocation), representing 10% of the Offer Shares, will initially be offered to the public in Hong Kong under the Hong Kong Public Offer.

The Hong Kong Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters will underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in “Underwriting” in this prospectus.

Investors may apply for the Offer Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

International Placing

Our Company is expected to offer initially 225,000,000 International Placing Shares (subject to re-allocation and the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters. Investors subscribing for the International Placing Shares are also required to pay the maximum Offer Price of HK\$1.40 per Share plus a brokerage of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027% of the Offer Price.

It is expected that the International Underwriters, or selling agents nominated by it, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake and confirm in the Application Form that he/she has not applied for Shares under the Hong Kong Public Offer.

STRUCTURE OF THE GLOBAL OFFERING

Our Company, our Directors, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offer from investors who receive Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offer.

The International Placing is expected to be subject to the conditions as stated in “Conditions of the Hong Kong Public Offer” in this section.

Hong Kong Public Offer

Our Company is initially offering 25,000,000 Hong Kong Offer Shares for subscription (subject to re-allocation) by the public in Hong Kong under the Hong Kong Public Offer, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$1.40 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.0027% SFC transaction levy.

The Hong Kong Public Offer is open to all members of the public in Hong Kong. An applicant for Shares under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the Application Form submitted by him/her that he/she has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Hong Kong Public Offer is liable to be rejected.

For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: 12,500,000 Shares in pool A and 12,500,000 Shares in pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the total value of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy thereon) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares in the total value of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pool is under-subscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. When there is over-subscription under the Hong Kong Public Offer, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

BASIS OF ALLOCATION OF THE OFFER SHARES

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offer is subject to reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be allocated to the Hong Kong Public Offer from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offer will be increased to 75,000,000 Shares, representing 30% of the Offer Shares;
- (b) if the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 100,000,000 Shares, representing 40% of the Offer Shares; and
- (c) if the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 125,000,000 Shares, representing 50% of the Offer Shares.

In all cases, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

In addition, the Sole Global Coordinator may, at its discretion, reallocate International Placing Shares from the International Placing to the Hong Kong Public Offer. If the Hong Kong Public Offer is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any of the unsubscribed Hong Kong Offer Shares originally included in the Hong Kong Public Offer to the International Placing in such proportions as it deems appropriate.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant to the Sole Global Coordinator the Over-allotment Option which will expire on a date which is 30 days from the date of the last day of lodging application under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, our Company may be required by the Sole Global Coordinator to allot and issue up to and not more than 37,500,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing. The Sole Global Coordinator may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements with Praise Treasure or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchases will be made in compliance with all

STRUCTURE OF THE GLOBAL OFFERING

application laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 37,500,000 new Shares will represent approximately 3.6% of our Company's enlarged issued share capital immediately after completion of the Capitalization Issue, the Global Offering and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to curb and, if possible, prevent a decline in the market price of the securities below the Offer Price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilizing manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions which stabilize or maintain the market price of the Shares at levels above those which might otherwise prevail for a limited period after the Listing Date. The number of Shares that may be over-allocated will be up to, but not more than, an aggregate of 37,500,000 additional Shares, being the number of the Shares that may be issued under the Over-allotment Option. Such stabilizing actions may include over-allocating International Placing Shares and covering such over allocations by exercising the Over-allotment Option or by making purchases in the secondary market or through stock borrowing arrangement with Praise Treasure or through a combination of these means or otherwise. However, there is no obligation on the Sole Global Coordinator to do this. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

Subject to and under the Securities and Futures (Price Stabilizing) Rules of the SFO, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may take all or any of the following actions (“**primary stabilizing action**”) with respect to any Shares during the stabilization period, which should end on Sunday, July 12, 2015:

- (1) purchase, or agree to purchase, any of the Shares;
- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimising any reduction in the market price of the Shares. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may also, in connection with any primary stabilizing action, take all or any of the following actions:
 - (a) for the purpose of preventing or minimising any reduction in the market price of the Shares;
 - (i) allocate a greater number of Shares than the number that is initially offered under the Global Offering; or
 - (ii) sell or agree to sell Shares so as to establish a short position in them;

STRUCTURE OF THE GLOBAL OFFERING

- (b) pursuant to an option or other right to purchase or subscribe for Shares, purchase or subscribe for or agree to purchase or subscribe for Shares in order to close out any position established under paragraph (a);
- (c) sell or agree to sell any Shares acquired by it in the course of the primary stabilizing action in order to liquidate any position that has been established by such action; and/or
- (d) offer or attempt to do anything as described in paragraphs (a)(ii), (b) or (c).

Investors should be aware that:

- the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator will maintain such a long position;
- liquidation of such a long position by the Sole Global Coordinator may have an adverse impact on the market price of our Shares;
- stabilizing action cannot be taken to support the price of our Shares for longer than the stabilizing period which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer, that the stabilizing period is expected to expire on Sunday, July 12, 2015, and that after this date, when no further stabilizing action may be taken, demand for our Shares, and therefore its price could fall; and
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and that stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price the investor has paid for our Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of SFO will be made within seven days of the expiration of the stabilization period.

STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the Sole Global Coordinator may borrow up to 37,500,000 Shares from Praise Treasure, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Stock borrowing arrangement is

STRUCTURE OF THE GLOBAL OFFERING

not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with. The principal terms of the Stock Borrowing Agreement are:

- the stock borrowing arrangement will only be effected by the borrower for settlement of over-allocations in connection with the International Placing;
- the maximum number of Shares borrowed from Praise Treasure will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Praise Treasure or its nominees on no later than three business days following the earlier of (i) the last day for exercising the Over-allotment Option; and (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Praise Treasure by the Sole Global Coordinator in relation to the stock borrowing arrangement.

DEALING ARRANGEMENTS

Assuming the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, June 19, 2015, it is expected that dealings in the Shares on the Stock Exchange will commence on Friday, June 19, 2015.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares are expected to commence on Friday, June 19, 2015.

The Shares will be traded in board lots of 2,000 Shares each.

The Stock Exchange stock code for the Shares is 574.

HOW TO APPLY FOR HONG KONG OFFER SHARES

I. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

II. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the US Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number; and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of shares in the Company and/or any its subsidiaries;
- are a Director or chief executive officer of the Company and/or any of its subsidiaries;
- are an associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

III. APPLYING FOR HONG KONG OFFER SHARES

1. Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

2. Where to Collect the Application Forms

(a) You can collect a **WHITE** Application Form from:

Any of the following addresses of the Sole Bookrunner and the Underwriters:

1. **China Everbright Securities (HK) Limited**
36th Floor, Far East Finance Centre
16 Harcourt Road
Hong Kong
2. **Innovax Capital Limited**
Office 1, 1/F, Lucky Building,
39 Wellington Street, Central,
Hong Kong
3. **Pacific Foundation Securities Limited**
11/F, New World Tower II,
16–18 Queen's Road Central,
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island . . .	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Wanchai Southorn Branch	Shop C2 on G/F and 1/F to 2/F, Lee Wing Building, No. 156–162 Hennessy Road, Wanchai
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King’s Road, Quarry Bay
	Causeway Bay Branch	G/F to 2/F, Yee Wah Mansion, 38–40A Yee Wo Street, Causeway Bay
Kowloon	Telford Gardens Branch	Shop P9–12, Telford Centre, Telford Gardens, Tai Yip Street, Kwun Tong
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617–623 Nathan Road, Mongkok
	Tsimshatsui Branch	G/F, 8A–10 Granville Road, Tsimshatsui
New Territories	Metroplaza Branch	Shop No. 175–176, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung
	Tseung Kwan O Branch	Shop G37–40, G/F, Hau Tak Shopping Centre East Wing, Hau Tak Estate, Tseung Kwan O
	Shatin Plaza Branch	Shop No. 8, Level 1, Shatin Plaza, 21–27 Shatin Centre Street, Shatin

(b) You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Tuesday, June 9, 2015 till 12:00 noon on Friday, June 12, 2015 from:

- (i) the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- (ii) your stockbroker, who may have the Application Forms available.

3. How to complete the Application Form and make payment

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary

HOW TO APPLY FOR HONG KONG OFFER SHARES

post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

By completing and submitting the Application Form or applying electronically via CCASS or through the **HK eIPO White Form** service, amongst other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- (a) **agree** to comply with the Companies Law, the Companies Ordinance, Companies (WUMP) Ordinance, the Memorandum of Association and the Articles;
- (b) **agree** with our Company and each Shareholder that the Shares in our Company are freely transferable by the holders thereof;
- (c) **authorize** our Company to enter into a contract on your behalf with each of the Directors and officers of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders as stipulated in the Memorandum of Association and the Articles;
- (d) **confirm** that you have received and read this prospectus and have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations except those in any supplement to this prospectus;
- (e) **agree** that our Company, the Directors, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Underwriters and/or any of their respective directors, officers, employees, agents or advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus;
- (f) **undertake** and **confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (g) **agree** to disclose to our Company, our Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Hong Kong Underwriters and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- (h) **undertake** to execute all relevant documents and **instruct** and **authorize** our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner and/or the Hong Kong Underwriters as agent for our Company (or their respective agents or nominees) to do on your behalf all things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the Application Form;
- (i) **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (j) **warrant** the truth and accuracy of the information contained in your application and understand that you may be prosecuted if you make a false declaration;
- (k) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- (l) **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;
- (m) **undertake** and **agree** to accept the Shares applied for, or any lesser number allocated to you under the application;
- (n) if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Bookrunner, the Sole Sponsor and the Hong Kong Underwriters nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (o) **undertake** to sign all documents and to do all things necessary to enable you to be registered as the holder of the Offer Shares allocated to you, and as required by the Articles;
- (p) **represent, warrant** and **undertake** that you/none of the persons for whose benefit you are applying is restricted by any applicable laws of Hong Kong or elsewhere from making the application, paying any application moneys for, or being allotted or taking up, any Hong Kong Offer Shares; and at the time the offer of Hong Kong Offer Shares was made to you and at the time you are completing and submitting the application to originate your buy order, you are, and each of the other person(s) for whose benefit you are applying is, located outside the United States (as defined in Regulation S under the U.S. Securities Act 1933) and will acquire the Hong Kong Offer Shares in an offshore transaction (within the meaning of Regulation S under the U.S. Securities Act) outside the United States; or the allotment of or the application for the Hong Kong Offer Shares to or by whom your application is made would require our Company to comply with any requirement under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong;
- (q) (if the application is made for your own benefit) **warrant** that your application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by anyone as your agent or by any other persons;
- (r) (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- (s) (if you are an agent for another person) **warrant** that reasonable inquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic**

HOW TO APPLY FOR HONG KONG OFFER SHARES

- application instructions** to HKSCC, and that you are duly authorized to sign the Application Form or to give **electronic application instructions** as that other person's agent;
- (t) **agree** that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offer made available by our Company;
 - (u) **declare** and **represent** that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
 - (v) **agree** to disclose to our Company, the Sole Global Coordinator, the Sole Bookrunner and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;
 - (w) **authorize** our Company to place your name(s) or HKSCC Nominees, as the case may be, on our Company's register of members as the holder(s) in Hong Kong of any Offer Shares allocated to you, and our Company and/or our Company's agents to send any Share certificate(s) (where applicable) and/or any e-Auto Refund payment instruction/any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post to the address stated on the Application Form at your own risk (except if you have applied for 1,000,000 Hong Kong Offer Shares or more, as the case may be, and have collected your refund cheque and/or Share certificates (where applicable) in person);
 - (x) **confirm** that you are aware of the restrictions on the Global Offering of the Offer Shares described in this prospectus;
 - (y) **understand** that these declarations and representations will be relied upon by our Company, the Sole Sponsor, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Bookrunner in deciding whether or not to allocate any Offer Shares in response to your application and you may be prosecuted for making a false declaration;
 - (z) **agree** with our Company, for itself and for the benefit of each shareholder of the Company (and so that our Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of our Company) (and if applicable, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Law, the Memorandum and the Articles; and
 - (aa) **agree** that the processing of the application may be done by the Company's receiving bankers and is not restricted to the bank at which the application was lodged.

In order for the **YELLOW** Application Forms to be valid:

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) If the application is made by an individual CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card number; and
- (ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(c) If the application is made by a joint individual CCASS Investor Participant:

- (i) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card number of all joint CCASS Investor Participants; and
- (ii) the participant I.D. must be inserted in the appropriate box in the Application Form.

(d) If the application is made by a corporate CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and
- (ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission of participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, our Company and the Sole Global Coordinator as its agent may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. Our Company and the Sole Global Coordinator, in the capacity as its agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

4. How to Make Payment for the Application

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- show your account name (or, in the case of joint applicants, the name of the first-named applicant) (either pre-printed on the cheque or endorsed at the back of the cheque by an authorized signatory of the bank on which it is drawn), which must be the same as the name on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
- be made payable to “HORSFORD NOMINEES LIMITED — PA SHUN PUBLIC OFFER”; and
- be crossed “Account Payee Only”.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on first presentation.

If you pay by banker’s cashier order, the banker’s cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified at the back of the banker’s cashier order by an authorized signatory of the bank on which it is drawn. The name on the back of the banker’s cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker’s cashier order must be the same as the name of the first-named applicant;
- not be post-dated;
- be in Hong Kong dollars;
- be made payable to “HORSFORD NOMINEES LIMITED — PA SHUN PUBLIC OFFER”; and
- be crossed “Account Payee Only”.

Your application may be rejected if your banker’s cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker’s cashier order will not be presented for payment before 12:00 noon on Friday, June 12, 2015. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any Share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker’s cashier order.

HOW TO APPLY FOR HONG KONG OFFER SHARES

5. Members of the Public — Time for Applying for Hong Kong Offer Shares

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Friday, June 12, 2015, or, if the application lists are not open on that day, by the time and date stated in the subparagraph headed “Effect of bad weather on the opening of the application lists” below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Standard Chartered Bank (Hong Kong) Limited listed under the sub-paragraph headed “Where to collect the Application Forms” above at the following times:

Tuesday, June 9, 2015	— 9:00 a.m. to 5:00 p.m.
Wednesday, June 10, 2015	— 9:00 a.m. to 5:00 p.m.
Thursday, June 11, 2015	— 9:00 a.m. to 5:00 p.m.
Friday, June 12, 2015	— 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, June 12, 2015.

No proceedings will be taken on applications for the Hong Kong Offer Shares and no allotment of any such Hong Kong Offer Shares will be made until after the closing of the application lists.

6. Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, June 12, 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

IV. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “II. Who can apply” in this section, may apply through the **HK eIPO White Form** for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **HK eIPO White Form** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the designated **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form**.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application through the **HK eIPO White Form** at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, June 9, 2015 until 11:30 a.m. on Friday, June 12, 2015 and the latest time for completing full payment of application monies in respect of such application will be at 12:00 noon on Friday, June 12, 2015 or such later time under the “6. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

V. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

1. General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the Company and its registrars.

2. Giving Electronic Application Instructions to HKSCC to Apply for Hong Kong Offer Shares by HKSCC Nominees on your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (a) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees does the following things on behalf of each such person:
 - **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person’s behalf or that person’s CCASS Investor Participant stock account;
 - **undertakes** and **agrees** to accept the Hong Kong Offer Shares with respect to which that person has given **electronic application instructions** or any lesser number;
 - **undertakes** and **confirms** that that person has not applied for or taken up any Offer Shares under the International Placing nor otherwise participated in the International Placing;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instruction** for the benefit of that other person and that person is duly authorized to give those instructions as that other person's agent;
- **understands** that the above declaration will be relied upon by the Company, the Sole Sponsor, the Sole Global Coordinator and the Sole Bookrunner (for itself and on behalf of the Hong Kong Underwriters) in deciding whether or not to make any allotment of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- **authorizes** the Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
- **agrees** that our Company and the Directors are only liable for the information and representations contained in this prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to our Company and its registrars, receiving bank, advisors and agents and any information which they may require about that person;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or a public holiday in Hong Kong), unless a person responsible for this prospectus under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus; However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose

HOW TO APPLY FOR HONG KONG OFFER SHARES

any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by our Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares;
- **agrees** with our Company (for the Company itself and for the benefit of each shareholder of our Company) that Shares in our Company are freely transferable by the holders thereof; and
- **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

3. Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participant) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designed bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Share paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account;
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

4. Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of the Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of the Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. No application for any other number of the Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Offer Shares must be in one of the multiples set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

6. Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, June 9, 2015	— 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, June 10, 2015	— 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, June 11, 2015	— 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, June 12, 2015	— 8:00 a.m. to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, June 9, 2015 until 12:00 noon on Friday, June 12, 2015 (24 hours daily, except the last application day).

7. Effect of bad weather on the last application day

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, June 12, 2015. If:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal is in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon on Friday, June 12, 2015, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong during 9:00 a.m. to 12:00 noon on such day.

HOW TO APPLY FOR HONG KONG OFFER SHARES

8. Allocation of Hong Kong Offer Shares

For the purpose of allocating the Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit such instructions is given will be treated as an applicant.

9. Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation in this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (WUMP) Ordinance.

10. Personal data

The section headed “Personal data” of the Application Forms applies to any personal data held by our Company and the registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

11. Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Our Company, our Directors, the Sole Sponsor, the Sole Bookrunner, the Hong Kong Underwriters and any persons involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either (a) submit a white or yellow Application Form; or (b) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, June 12, 2015 or such later date as stated in the subparagraph headed “Effect of bad weather on the opening of the application list” above.

12. If your application for offer shares is successful

No receipt will be issued for application money paid.

If your application is wholly or partly successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your CCASS Investor Participant stock account or the stock account of the CCASS Participant which you have instructed to give **electronic**

HOW TO APPLY FOR HONG KONG OFFER SHARES

application instructions on your behalf, on Thursday, June 18, 2015 or under contingent situation, on any other date HKSCC or HKSCC Nominees chooses.

Our Company will publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company shall include information relating to the beneficial owner, if supplied), your Hong Kong Identity Card/passport number or other identification code (Hong Kong Business Registration number for corporations) and the basis of allotment of the public offer, in the newspapers on Thursday, June 18, 2015. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m, on Thursday, June 18, 2015 or any other date HKSCC or HKSCC Nominees chooses.

If you are instructing your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Offer Shares allocated to you and the amount of refund (if any) payable to you with that broker or custodian.

If you are applying as a CCASS Investor Participant, you can also check the number of offer shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System on Thursday, June 18, 2015. Immediately following the credit of the offer shares to your stock account and the credit of the refund monies to your bank account, HKSCC will make available to you an activity statement showing the number of offer shares credited to your stock account and the amount of refund money credited to your designated bank account (if any).

Our Company will not issue temporary documents of title.

13. Refund of your money

All refunds of your application monies (including brokerage, transaction levy and trading fee) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, June 18, 2015.

VI. HOW MANY APPLICATIONS YOU CAN MAKE

1. You may make more than one application for the Hong Kong Offer Shares only if:

You are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **WHITE** or **YELLOW** Application Form and lodging more than one application in your own name on behalf of different beneficial owners. In the box on the **WHITE** or **YELLOW** Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner).

If you do not include this information, the application will be treated as being made for your own benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

2. All of your applications for the Hong Kong Offer Shares (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:
- make more than one application (whether individually or jointly with others) on **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant);
 - both apply (whether individually or jointly with others) on one (or more) **WHITE** Application Form and one (or more) **YELLOW** Application Form or on one (or more) **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC via CCASS; or
 - apply (whether individually or jointly with others) on one (or more) **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) for more than 100% of the Hong Kong Offer Shares being initially available in either pool A or pool B to the public as referred to under the section headed “Structure of the Global Offering” in this prospectus; or
 - have applied for or taken up, or indicated an interest in applying for or taking up or have been or will be placed (including conditionally and/or provisionally) any International Placing Shares under the International Placing.
3. All of your applications for the Hong Kong Offer Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees Limited acting on **electronic application instructions**). If an application is made by an unlisted company and:
- (a) the principal business of that company is dealing in securities; and
 - (b) you exercise statutory control over that company, then the application will be deemed to be made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

- (a) control the composition of the board of directors of that company; or
- (b) control more than half of the voting power of that company; or
- (c) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR HONG KONG OFFER SHARES

VII. PUBLICATION OF RESULTS

Our Company expects to publish (i) the final Offer Price; (ii) the level of indication of interests in the International Placing; (iii) the level of applications in the Hong Kong Public Offer; and (iv) the basis of allotment of the Hong Kong Offer Shares on the website of the Stock Exchange at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, June 18, 2015 and in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

Results of allocations in the Hong Kong Public Offer, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants (where supplied) and the number of the Hong Kong Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- on the Stock Exchange's website at www.hkexnews.hk from 9:00 a.m. on Thursday, June 18, 2015 onwards;
- on our Hong Kong Public Offer results of allocations website at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on Thursday, June 18, 2015 to 12:00 midnight on Wednesday, June 24, 2015. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;
- from our Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of the Hong Kong Offer Shares allocated to them, if any, by calling 3691-8488 between 9:00 a.m. and 6:00 p.m. from Thursday, June 18, 2015 to Tuesday, June 23, 2015; and
- from special allocation results booklets setting out the results of allocations which will be available for inspection during opening hours of the designated branches of the receiving bank of the Hong Kong Public Offer from Thursday, June 18, 2015 to Monday, June 22, 2015 at the addresses set out under "Where to collect the Application Forms" above in this section.

VIII. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than HK\$1.40 per Share (excluding brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% thereon) initially paid on application, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Hong Kong Public Offer" in this prospectus or if any application is revoked or any allotment pursuant thereto as become void, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

HOW TO APPLY FOR HONG KONG OFFER SHARES

No temporary documents of title will be issued with respect to the Hong Kong Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

- (a) for applications on **WHITE** Application Forms: (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **YELLOW** Application Forms: Share certificates for their Hong Kong Offer Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum Offer Price per Share paid on application in the event that the Offer Price is less than the Offer Price per Share initially paid on application, in each case including the brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data could also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) with respect to wholly and partially unsuccessful applications and the difference between the Offer Price and the Offer Price per Share initially paid on application (if any) under white or yellow Application Forms; and Share certificates for wholly and partially successful applicants under white Application Forms are expected to be posted on or around Thursday, June 18, 2015. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in “Underwriting — Grounds for Termination” in this prospectus has not been exercised.

(a) *If you apply using a **WHITE** Application Form:*

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and Share certificate(s) (where applicable) from our Company’s Hong Kong Share Registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, June 18, 2015

HOW TO APPLY FOR HONG KONG OFFER SHARES

or such other place and date as notified by our Company in the newspapers as the place and date of collection/dispatch of refund cheques/Share certificates. If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Company's Hong Kong Share Registrar, Tricor Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) will be sent to the address on your Application Form on or around Thursday, June 18, 2015, by ordinary post and at your own risk.

*(b) If you apply using a **YELLOW** Application Form:*

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on or around Thursday, June 18, 2015, by ordinary post and at your own risk.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Thursday, June 18, 2015, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

*(c) If you apply through the **HK eIPO White Form***

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from our Hong Kong Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, June 18, 2015, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, June 18, 2015 by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

- (d) *If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):*

For Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

- (e) *If you are applying as a CCASS Investor Participant:*

Our Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the newspapers on Thursday, June 18, 2015. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, June 18, 2015 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

IX. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reasons, our Company will refund to you your application monies, including the related brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, our Company will refund to you the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$1.40 per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies, without interest. Please refer to "Dispatch/Collection of Share Certificates and Refund Monies" above in this section.

Refund cheques will be crossed "Account Payee Only", and made out to you, or, if you are joint applicants, to the first-named applicant on the Application Form. Part of your Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number which may lead to delay in encashment of or may invalidate your refund cheque. Refund cheques are expected to be dispatched on Thursday, June 18, 2015.

Refund of your application monies (if any) will be made on or about Thursday, June 18, 2015 in accordance with the various arrangements as described in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

X. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allotted to you:

If your application is revoked:

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees Limited on your behalf may only be revoked after the fifth business day after the time of the opening of the application lists of the Hong Kong Public Offer. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that we will not offer any Hong Kong Offer Shares to any person on or before that day except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may be revoked before the fifth business day after the time of the opening of the application lists if a person responsible for this prospectus under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

If our Company or its agents or nominees exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator (on behalf of the Company) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. Our Company, the Sole Global Coordinator (on behalf of the Company) or their respective agents or nominees do not have to give any reason for any rejection or acceptance.

If the allotment of the Hong Kong Offer Shares is void:

Your allotment of the Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares in issue and to be issued as mentioned in this prospectus either:

- within three weeks from the closing of the application lists in respect of the Hong Kong Public Offer; or

HOW TO APPLY FOR HONG KONG OFFER SHARES

- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing of the application lists in respect of the Hong Kong Public Offer.

If your application is rejected:

Your application will be rejected if:

- it is a multiple or suspected multiple application;
- your Application Form is not completed correctly in accordance with the instructions therein;
- you or the person(s) for whose benefit you are applying have applied for and/or been allotted or will be allotted with the International Placing Shares;
- your payment is not in the correct form;
- you pay by cheque or banker 's cashier order and the cheque or banker 's cashier order is dishonoured on its first presentation;
- our Company and the Sole Global Coordinator (on behalf of the Company) believe that the acceptance of your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address appeared in the Application Form is located;
- your application is for more than 100% of the Hong Kong Offer Shares initially offered for public subscription in either pool A (12,500,000 Shares) or pool B (12,500,000 Shares); or
- any of the Underwriting Agreements does not become unconditional in accordance with its terms or is terminated in accordance with its terms.

XI. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong.



國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

香港銅鑼灣禮頓道77號禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong
電話 Main +852 2894 6888
傳真 Fax +852 2895 3752
www.crowehorwath.hk

9 June 2015

The Directors

Pa Shun Pharmaceutical International Holdings Limited
(formerly known as Pa Shun Pharmaceutical International Holdings Ltd.)
China Everbright Capital Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Pa Shun Pharmaceutical International Holdings Limited (formerly known as Pa Shun Pharmaceutical International Holdings Ltd.) (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated statements of financial position of the Group as of 31 December 2012, 2013 and 2014 and the statements of financial position of the Company as of 31 December 2012, 2013 and 2014, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2012, 2013 and 2014 (the “Track Record Period”), together with the explanatory notes thereto (the “Financial Information”), for inclusion in this prospectus of the Company dated 9 June 2015 (the “Prospectus”).

The Company was incorporated in the Cayman Islands on 3 May 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 30 December 2011 (the “Reorganisation”) as detailed in the section headed “History and Corporate Structure” in this Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in note 1(b) of Section B below.

As of the date of this report, no audited financial statements have been prepared for the Company, Pa Shun Pharmaceutical Company Limited, Chengdu Keyi Biotechnology Co., Ltd. and Hubei Baixintang Pharmacy Chain Store Co., Ltd. as they are not subject to statutory audit requirements under the relevant rules and regulations in their respective jurisdictions of incorporation.

All subsidiaries of the Company have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Track Record Period and the names of the respective auditors are set out in note 31 of section B.

The directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period (the “Underlying Financial Statements”) in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014 were audited by us under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared by the directors of the Company for inclusion in this Prospectus in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2014.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as of 31 December 2012, 2013 and 2014 and the Group's consolidated results and cash flows for the Track Record Period then ended.

A. FINANCIAL INFORMATION

1. Consolidated statements of profit or loss

	Section B	Year ended 31 December		
		2012 RMB'000	2013 RMB'000	2014 RMB'000
Turnover	3	712,111	794,349	847,193
Cost of sales		(582,575)	(643,924)	(665,126)
Gross profit		129,536	150,425	182,067
Other revenue	4(a)	10,379	14,612	20,672
Other net income/(loss)	4(b)	354	33	(710)
Selling and distribution expenses		(33,380)	(35,990)	(36,468)
General and administrative expenses		(25,137)	(25,779)	(46,729)
Profit from operations		81,752	103,301	118,832
Finance costs	5(a)	(3,453)	(5,855)	(9,013)
Impairment on goodwill	13	—	—	(4,714)
Change in fair value on convertible redeemable preferred shares	20	(51,881)	(16,134)	(33,236)
Profit before taxation	5	26,418	81,312	71,869
Income tax	6	(17,110)	(18,243)	(25,740)
Profit for the year		<u>9,308</u>	<u>63,069</u>	<u>46,129</u>
Attributable to:				
Equity shareholders of the Company		9,409	63,070	45,944
Non-controlling interests		(101)	(1)	185
Profit for the year		<u>9,308</u>	<u>63,069</u>	<u>46,129</u>
Earnings per share	9			
Basic		<u>0.013</u>	<u>0.090</u>	<u>0.065</u>
Diluted		<u>0.013</u>	<u>0.079</u>	<u>0.065</u>

The accompanying notes form part of the Financial Information.

2. Consolidated statements of profit or loss and other comprehensive income

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Profit for the year	9,308	63,069	46,129
Other comprehensive income for the year, net of nil income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of entities outside the PRC	1,713	5,396	(5,929)
Total comprehensive income for the year	<u>11,021</u>	<u>68,465</u>	<u>40,200</u>
Attributable to:			
Equity shareholders of the Company	11,122	68,466	40,015
Non-controlling interests	(101)	(1)	185
Total comprehensive income for the year	<u>11,021</u>	<u>68,465</u>	<u>40,200</u>

The accompanying notes form part of the Financial Information.

3. Consolidated statements of financial position

	Section <i>B</i>	As of 31 December			
		Note	2012	2013	2014
			RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	10	54,323	62,957	80,905	
Prepaid land lease payments	11	2,597	2,468	2,359	
Intangible assets	12(a)	3,474	5,278	6,024	
Goodwill	13	17	6,009	1,295	
Prepayment for intangible asset	12(b)	—	20,000	20,000	
Deferred tax assets	22(b)	3,945	5,167	6,051	
Other non-current assets	14	8,642	52,541	22,177	
		72,998	154,420	138,811	
Current assets					
Inventories	15	67,876	58,817	69,128	
Trade and other receivables	16	292,367	350,609	363,799	
Amount due from the Controlling Shareholder	28(b)	—	1,359	675	
Amount due from a director	28(b)	92	247	—	
Amounts due from other related parties	28(b)	17,702	2,385	340	
Pledged bank deposits	17	15,382	53,977	74,180	
Cash and cash equivalents	17	39,227	65,375	67,059	
		432,646	532,769	575,181	
Current liabilities					
Trade and other payables	18	150,782	208,966	184,332	
Bank borrowings	19	24,000	75,000	50,000	
Convertible redeemable preferred shares	20	173,560	184,717	220,355	
Amount due to the Controlling Shareholder	28(b)	8,511	—	—	
Amount due to a director	28(b)	—	—	210	
Amounts due to other related parties	28(b)	405	2,029	232	
Current taxation	22(a)	12,797	13,788	13,472	
		370,055	484,500	468,601	
Net current assets		62,591	48,269	106,580	
Total assets less current liabilities		135,589	202,689	245,391	

	<i>Section</i>	As of 31 December		
	<i>B</i>			
	<i>Note</i>	2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities				
Convertible redeemable preferred shares	20	33,856	33,373	36,757
Deferred income — government grant	21	29,118	28,236	27,354
		<u>62,974</u>	<u>61,609</u>	<u>64,111</u>
NET ASSETS		<u><u>72,615</u></u>	<u><u>141,080</u></u>	<u><u>181,280</u></u>
CAPITAL AND RESERVES				
	24			
Share capital		1	1	1
Reserves		71,737	140,203	180,218
Total equity attributable to equity shareholders of the Company		71,738	140,204	180,219
Non-controlling interests		877	876	1,061
TOTAL EQUITY		<u><u>72,615</u></u>	<u><u>141,080</u></u>	<u><u>181,280</u></u>

The accompanying notes form part of the Financial Information.

4. Statements of financial position of the Company

	Section <i>B</i>	As of 31 December		
		2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Non-current asset				
Investments in subsidiaries	29	324	324	324
Current Assets				
Amounts due from subsidiaries	28(b)	64,912	63,866	65,540
Cash and cash equivalents	17	11,163	9,021	2
		76,075	72,887	65,542
Current liabilities				
Trade and other payables	18	1,244	2,433	3,157
Convertible redeemable preferred shares	20	173,560	184,717	220,355
Amount due to the Controlling Shareholder	28(b)	1,352	1,316	1,653
		176,156	188,466	225,165
Net current liabilities		(100,081)	(115,579)	(159,623)
Total assets less current liabilities		(99,757)	(115,255)	(159,299)
Non-current liability				
Convertible redeemable preferred shares	20	33,856	33,373	36,757
NET LIABILITIES		<u>(133,613)</u>	<u>(148,628)</u>	<u>(196,056)</u>
CAPITAL AND RESERVES	24			
Share capital		1	1	1
Reserves		(133,614)	(148,629)	(196,057)
TOTAL DEFICIT		<u>(133,613)</u>	<u>(148,628)</u>	<u>(196,056)</u>

The accompanying notes form part of the Financial Information.

5. Consolidated statements of changes in equity

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	PRC			Retained profits	Total	Total equity		
		Statutory reserve	Exchange reserve	Other reserve					
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2012	1	7,589	2,354	47,415	78,822	136,181	978	137,159	
Changes in equity for 2012:									
Profit for the year	—	—	—	—	9,409	9,409	(101)	9,308	
Other comprehensive income for the year									
— Exchange differences on translation of financial statements of entities outside the PRC	—	—	1,713	—	—	1,713	—	1,713	
Total comprehensive income for the year	—	—	1,713	—	9,409	11,122	(101)	11,021	
Appropriation to PRC statutory reserve	—	6,697	—	—	(6,697)	—	—	—	
Deemed distribution to the Controlling Shareholder upon redesignation of shares (note 24(b)(iii))	—	—	—	(75,565)	—	(75,565)	—	(75,565)	
Balance at 31 December 2012	<u>1</u>	<u>14,286</u>	<u>4,067</u>	<u>(28,150)</u>	<u>81,534</u>	<u>71,738</u>	<u>877</u>	<u>72,615</u>	
Balance at 1 January 2013	1	14,286	4,067	(28,150)	81,534	71,738	877	72,615	
Changes in equity for 2013:									
Profit for the year	—	—	—	—	63,070	63,070	(1)	63,069	
Other comprehensive income for the year									
— Exchange differences on translation of financial statements of entities outside the PRC	—	—	5,396	—	—	5,396	—	5,396	
Total comprehensive income for the year	—	—	5,396	—	63,070	68,466	(1)	68,465	
Appropriation to PRC statutory reserve	—	7,852	—	—	(7,852)	—	—	—	
Balance at 31 December 2013	<u>1</u>	<u>22,138</u>	<u>9,463</u>	<u>(28,150)</u>	<u>136,752</u>	<u>140,204</u>	<u>876</u>	<u>141,080</u>	

	Attributable to equity shareholders of the Company							Total equity RMB'000
	Share capital RMB'000	PRC				Total RMB'000	Non- controlling interests RMB'000	
		Statutory reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000			
Balance at 1 January 2014	1	22,138	9,463	(28,150)	136,752	140,204	876	141,080
Changes in equity for 2014:								
Profit for the year	—	—	—	—	45,944	45,944	185	46,129
Other comprehensive income for the year								
— Exchange differences on translation of financial statements of entities outside the PRC	—	—	(5,929)	—	—	(5,929)	—	(5,929)
Total comprehensive income for the year	—	—	(5,929)	—	45,944	40,015	185	40,200
Appropriation to PRC statutory reserve	—	9,767	—	—	(9,767)	—	—	—
Balance at 31 December 2014	1	31,905	3,534	(28,150)	172,929	180,219	1,061	181,280

6. Consolidated statements of cash flows

	<i>Section B</i>	Year ended 31 December		
		2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note</i>			
Operating activities				
Profit before taxation		26,418	81,312	71,869
Adjustments for:				
Depreciation of property, plant and equipment	10	2,874	3,771	9,368
Amortisation of prepaid land lease payments	11	89	109	109
Amortisation of intangible assets	12	455	522	619
Amortisation of government grant	21	(882)	(882)	(882)
Provision for impairment of trade receivables	16(b)	1,368	3,052	(1,239)
Write off of other receivables	5(c)	33	505	1,093
Loss on disposal of property, plant and equipment	4(b)	81	32	1,992
Impairment on goodwill	13	—	—	4,714
Change in fair value of convertible redeemable preferred shares	20	51,881	16,134	33,236
Gain on disposal of a subsidiary	4(b)	(392)	—	—
Bank interest income	4(a)	(425)	(268)	(1,715)
Finance costs	5(a)	2,868	4,114	4,820
Net foreign exchange loss/(gain)		214	364	(391)
		84,582	108,765	123,593
Change in working capital:				
(Increase)/decrease in inventories		(11,838)	10,214	(10,311)
Increase in trade and other receivables		(115,643)	(62,171)	(13,044)
Increase/(decrease) in trade and other payables		21,023	53,891	(24,634)
Cash (used in)/generated from operations		(21,876)	110,699	75,604
Income tax paid	22	(20,366)	(18,474)	(26,940)
Net cash (used in)/generated from operating activities		(42,242)	92,225	48,664

	<i>Section B Note</i>	Year ended 31 December		
		2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investing activities				
Payment for purchase of property, plant and equipment		(3,870)	(10,523)	(19,833)
Proceeds from disposal of property, plant and equipment		8	89	6
Payment for purchase of intangible assets		(898)	(2,174)	(865)
Payment for deposit for purchase of property, plant and equipment		—	(10,000)	(9,866)
Payment for prepayment for purchase of intangible assets		—	(20,000)	—
(Increase)/decrease in deposits paid for acquisition of retail pharmacy stores		(2,588)	1,101	250
(Increase)/decrease in deposit paid for potential acquisition		—	(30,000)	30,000
Increase in other deposit		—	(5,000)	—
Proceeds from disposal of an available-for-sale investment		20,000	—	—
Net cash outflow from disposal of subsidiaries	23(b)	(428)	—	—
Partial consideration received in respect of the disposal of a subsidiary in 2011		—	4,000	—
Net cash outflow from acquisition of subsidiaries	23(a)	—	(9,927)	—
(Increase) in pledged bank deposits		(2,478)	(38,595)	(20,203)
(Increase)/decrease in amount due from a director		(92)	(155)	457
(Increase)/decrease in amounts due from other related parties		(12,777)	15,317	2,045
Bank interest received	4(a)	425	268	1,715
Net cash used in investing activities		(2,698)	(105,599)	(16,294)

	<i>Section B Note</i>	Year ended 31 December		
		2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financing activities				
Proceeds from new bank loans		24,000	80,000	75,000
Repayment of bank loans		(30,900)	(29,000)	(100,000)
Proceeds from issue of convertible redeemable preferred shares		43,542	—	—
(Repayment to)/advance from the Controlling Shareholder		129	(8,575)	684
Increase/(decrease) in amounts due to other related parties		164	1,624	(1,797)
Borrowing costs paid	5(a)	(2,868)	(4,114)	(4,820)
Net cash generated from/(used in) financing activities		<u>34,067</u>	<u>39,935</u>	<u>(30,933)</u>
Net (decrease)/increase in cash and cash equivalents		(10,873)	26,561	1,437
Cash and cash equivalents at the beginning of the year		50,120	39,227	65,375
Effect of changes in foreign exchange rate		(20)	(413)	247
Cash and cash equivalents at the end of the year	17	<u><u>39,227</u></u>	<u><u>65,375</u></u>	<u><u>67,059</u></u>

The accompanying notes form part of the Financial Information.

B. NOTES TO THE FINANCIAL INFORMATION**1. SIGNIFICANT ACCOUNTING POLICIES****a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted by the Group are set out in the remainder of this note 1 under Section B.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective for the Track Record Period. The revised and new accounting standards and interpretations issued but not yet effective for the Track Record Period and not adopted in this Financial Information are set out in note 30.

The Financial Information also complies with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for Track Record Period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The Financial Information also complies with the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in this Financial Information.

b) Basis of preparation of the Financial Information

The Financial Information comprises the Company and its subsidiaries and has been prepared on a consolidated basis. All material intra-group transactions and balances have been eliminated on consolidation.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Registered capital/issued and paid up capital	Attributable equity interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Pa Shun Pharmaceutical Company Limited (“Pashun BVI”)	The British Virgin Islands (“BVI”) 23 May 2011	United States dollars (“USD” or “US\$”) 50,000	100%	100%	—	Investment holding

Name of company	Place and date of incorporation/ establishment	Registered capital/issued and paid up capital	Attributable equity interest			Principal activities
			Group's effective interest	Held by the Company	Held by a subsidiary	
Toyot Pa Shun Medicine Factory Company Limited ("Pashun HK") (東洋百信製藥廠有限公司)	Hong Kong 14 April 1989	Hong Kong dollars ("HKD") 10,000,000	100%	—	100%	Investment holding
Chengdu Toyot Pa Shun Pharmacy Co., Ltd. ("Chengdu Pashun") 成都東洋百信製藥有限公司 (note (ii))	The People's Republic of China (the "PRC") 23 February 1995	Renminbi ("RMB") 74,000,000 registered capital	100%	—	100%	Manufacturing and sale of pharmaceutical products in the PRC
Chengdu Pa Shun Pharmacy Chain Store Co., Ltd. ("Chengdu Pashun Chain Store") 成都百信藥業連鎖 有限責任公司 (note (iii))	PRC 27 May 2002	RMB5,000,000 registered capital	100%	—	100%	Medicine chain store operation and management
Chengdu Kexun Pharmacy Co., Ltd. ("Chengdu Kexun") 成都科訊藥業有限公司 (note (iii))	PRC 7 February 1995	RMB50,000,000 registered capital	100%	—	100%	Distribution of pharmaceutical products in the PRC
Hebei Chun Sheng Tang Chain Store Co., Ltd. ("Chunshengtang") 河北春生堂大藥房連鎖有限公司 (note (iii))	PRC 22 February 2010	RMB5,000,000 registered capital	80%	—	80%	Medicine Chain Store operation
Hubei Baixintang Pharmacy Chain Store Co., Ltd. ("Baixintang") 湖北百信堂大藥房連鎖有限公司 (note (iii) and (iv))	PRC 24 Mar 2011	RMB10,000,000 registered capital	100%	—	100%	Medicine Chain Store operation
Chengdu Keyi Biotechnology Co., Ltd. 成都科一生物科技有限公司 (note (iii))	PRC 22 July 2013	RMB2,000,000 registered capital	100%	—	100%	Not yet commenced business

Notes:

- (i) The English translations of the names of the Company's subsidiaries which were registered and incorporated in the PRC are for reference only and the official names of these entities are in Chinese.
- (ii) This entity is a wholly foreign owned enterprise established in the PRC.
- (iii) These entities are all PRC limited liability companies.
- (iv) This entity was acquired through business combinations during the Track Record Period (see note 23).
- (v) The Group has no subsidiaries which have material non-controlling interests at the end of each reporting period.

c) Basis of measurement of the Financial Information

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand, which is the functional currency of the Company's subsidiaries established in the PRC. The functional currency of the Company is USD.

The measurement basis used in the preparation of the Financial Information is the historical cost basis except that the convertible redeemable preferred shares designated at fair value through profit or loss are stated at their fair value as explained in the accounting policies set out in note 1(o).

d) Use of estimates and judgments

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 2.

e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can select to measure the non-controlling interests at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(n), (o) or (p) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 1(k)).

f) Goodwill

Goodwill represents the excess of

- i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- ii) the net fair value of the acquiree's identifiable assets and liabilities measured as of the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(k)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

g) Investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

Investments in equity securities classified as available-for-sale securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are subsequently recognised in the statement of financial position at cost less impairment losses (see note 1(k)).

Investments are recognised/derecognised on the date the Group commits to purchase/ sell the investments or they expire.

h) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 1(k)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

— Buildings	20–30 years
— Leasehold improvements	The shorter of the lease term and their useful life of 3–10 years
— Machinery and equipment	5–10 years
— Furniture and other office equipment	3–10 years
— Motor vehicles	4–10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment loss (see note 1(k)). Cost comprises direct costs of construction during the construction period. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the asset is substantially complete and ready for its intended use. No depreciation is provided in respect of construction in progress.

i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

— Patent	20 years
— Computer software	5–20 years

Both the period and method of amortisation are reviewed annually.

j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group's determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregated net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Prepaid land lease payments under an operating lease are initially stated at cost and subsequently amortised on a straight-line basis over the period of the lease term.

k) Impairment of assets

i) Impairment of investment in equity securities and other receivables

Investment in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;

- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its costs.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment loss for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decrease and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables and commercial bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables and commercial bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment;
- Prepaid land lease payments;
- Intangible assets;
- Prepayments;
- Goodwill; and
- Investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior reporting periods. Reversals of impairment losses are credited to profit or loss in the reporting period in which the reversals are recognised.

l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

o) Convertible redeemable preferred shares

The Group elected to designate the convertible redeemable preferred shares with one or more embedded derivatives as financial liability at fair value through profit or loss as they are contracts containing one or more embedded derivatives. They are initially recognised at fair value. Any directly attributable transaction costs are recognised as finance costs in the consolidated statements of profit or loss. Subsequent to initial recognition, the convertible redeemable preferred shares are carried at fair value with changes in fair value recognised in the profit or loss.

The convertible redeemable preferred shares are classified as non-current liabilities unless the Group has an obligation to settle the liability within twelve months after the end of the reporting period.

p) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

r) Employee benefits

i) Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the reporting period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) Retirement benefits

The entities within the Group in the PRC participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in the PRC and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The cost of all these schemes is charged to profit or loss of the Group for the reporting period concerned and the assets of all these schemes are held separately from those of the Group.

s) Income tax

Income tax for the reporting period comprises current tax and movements in deferred tax asset and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the reporting period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous reporting periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the asset and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or

- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) Sales of goods

Revenue is recognised when goods are delivered to customers which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

iv) Franchise fee income

Franchise fee income is recognised on a time proportion basis over the relevant agreements.

v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently are effectively recognised in profit or loss on a straight-line basis over the useful life of the asset.

v) Translation of foreign currencies

Foreign currency transactions during the reporting period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the date the fair value was measured.

The results of foreign operations are translated into RMB at exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statements of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

w) Borrowing costs

All borrowing costs are expensed and included in finance costs in the consolidated statements of profit or loss in the period in which they are incurred.

x) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in note 1(x)(a).
 - (vii) A person identified in note 1(x)(a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

y) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the financial information provided regularly to the Group's executive directors for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reporting results to changes in conditions and assumptions are factors to be considered when reviewing the Financial Information. The significant accounting policies are set out in note 1. The Group believes the following critical accounting policies involve the most significant judgments and estimates used in the preparation of the Financial Information.

a) Impairment of property, plant and equipment and intangible assets

If circumstances indicate that the carrying amounts of property, plant and equipment and intangible assets may not be recoverable, the assets may be considered “impaired”, and an impairment loss may be recognised to reduce the carrying amounts to the recoverable amount in accordance with the accounting policy for impairment of these assets as described in note 1(k)(ii). The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of future income and operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of future income and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

b) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(k)(ii). The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of goodwill and impairment loss in the period in which such estimate is changed.

c) Impairment of trade receivables

The Group estimates the provision for impairment of trade receivables by assessing the recoverability based on credit history, the ageing of the trade receivables balance and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassess the impairment allowances at the end of the reporting period.

d) Assessment of fair value of convertible redeemable preferred shares

The convertible redeemable preferred shares are not traded in an active market, and the fair value of the convertible redeemable preferred shares is established by using valuation techniques. These techniques include discounted cash flow analysis and option pricing models. Valuation models established by the valuer use the discounted cash flow method to determine the underlying equity value of the Company and adopt an equity allocation method to determine the fair value of the convertible redeemable preferred shares. However, inputs to the valuation models, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are

reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions be changed, it may lead to a change in fair value of the convertible redeemable preferred shares.

e) Assessment of useful economic lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the periods over which the assets are expected to be available for use. The Group reviews annually their estimated useful lives, based on factors that include asset utilisation, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation charges and decrease non-current assets.

f) Net realisable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling the products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior periods and affect the Group's net assets value. The Group reassesses these estimates at the end of each reporting period.

g) Recognition of deferred tax assets

Deferred tax assets are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted as the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and require a significant level of judgment exercised by the management. Any change in such assumptions and judgment would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

3. TURNOVER AND SEGMENT REPORTING

a) Turnover

The principal activities of the Group during the Track Record Period are pharmaceutical wholesale, self-operated retail pharmacies and pharmaceutical manufacturing in the PRC.

Turnover represents the sales value of goods supplied to customers. The amount of each significant category of revenue recognised in turnover during the Track Record Period is as follows:

	Year ended 31 December		
	2012 RMB'000	2013 RMB'000	2014 RMB'000
Pharmaceutical distribution	624,525	695,860	707,053
Self-operated retail pharmacies	7,831	17,626	29,352
Pharmaceutical manufacturing	79,755	80,863	110,788
	<u>712,111</u>	<u>794,349</u>	<u>847,193</u>

Information about major customers

The Group's customer base is diversified and no individual customer of the Group had transactions which exceeded 10% or more of the Group's revenue during the Track Record Period.

Further details regarding the Group's principal activities are discussed below.

b) Segment reporting

The Group manages its business by business lines and distribution channels. In a manner consistent with the way in which information is reported internally to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Pharmaceutical distribution: this segment generates revenue primarily from sales to (i) wholesalers, (ii) franchise retail pharmacy chain stores and (iii) hospitals and other medical institutions in rural areas.
- Self-operated retail pharmacies: this segment generates revenue primarily from sales of pharmaceutical and healthcare products, cosmetic products and daily necessities in self-operated retail pharmacies.
- Pharmaceutical manufacturing: this segment generates revenue primarily from sales of pharmaceutical products manufactured in the factories of the Group.

The Group's revenue and operating profit were entirely derived from activities of pharmaceutical distribution, self-operated retail pharmacies and pharmaceutical manufacturing in the PRC and the principal assets employed by the Group were located in the PRC during the Track Record Period. Accordingly, no analysis by geographical segments has been provided for the Track Record Period.

No analysis of the Group's assets and liabilities by operating segments was regularly provided to the chief operating decision maker for review during the Track Record Period for the purposes of resource allocation and performance assessment.

(i) Segment revenue and results

For the purposes of assessing segment performance and allocating resources between segments, the chief operating decision maker monitors the results attributable to each reportable segment on the following bases:

The chief operating decision maker reviews the gross profit of products sold via different reportable segments for the purposes of resource allocation and assessment of segment performance.

Revenue and cost of sales are allocated to the reportable segments with reference to sales generated by those segments and the cost of sales incurred by those segments. The measure used for reporting segment profit is gross profit of products sold via different reportable segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Segment information regarding the Group's revenue and results as provided to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012, 2013 and 2014 is set out below.

	Year ended 31 December 2012						
	Pharmaceutical distribution			Sub-total	Self-operated		Total
Sales to wholesalers	Sales to franchise retail pharmacy chain stores	Sales to hospitals and other medical institutions in rural areas	retail pharmacies		Pharmaceutical manufacturing	RMB'000	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	419,207	96,499	108,819	624,525	7,831	79,755	712,111
Inter-segment revenue	—	5,640	—	5,640	—	30,281	35,921
Reportable segment revenue	<u>419,207</u>	<u>102,139</u>	<u>108,819</u>	<u>630,165</u>	<u>7,831</u>	<u>110,036</u>	<u>748,032</u>
Reportable segment profit	<u>23,658</u>	<u>27,464</u>	<u>10,495</u>	<u>61,617</u>	<u>2,764</u>	<u>68,717</u>	<u>133,098</u>

Year ended 31 December 2013

	Pharmaceutical distribution			Sub-total	Self-operated retail pharmacies	Pharmaceutical manufacturing	Total
	Sales to wholesalers	Sales to franchise retail pharmacy chain stores	Sales to hospitals and other medical institutions in rural areas				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	480,384	148,152	67,324	695,860	17,626	80,863	794,349
Inter-segment revenue	—	7,385	—	7,385	—	24,511	31,896
Reportable segment revenue	<u>480,384</u>	<u>155,537</u>	<u>67,324</u>	<u>703,245</u>	<u>17,626</u>	<u>105,374</u>	<u>826,245</u>
Reportable segment profit	<u>25,334</u>	<u>46,663</u>	<u>7,921</u>	<u>79,918</u>	<u>5,415</u>	<u>66,485</u>	<u>151,818</u>

Year ended 31 December 2014

	Pharmaceutical distribution			Sub-total	Self-operated retail pharmacies	Pharmaceutical manufacturing	Total
	Sales to wholesalers	Sales to franchise retail pharmacy chain stores	Sales to hospitals and other medical institutions in rural areas				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	446,018	173,189	87,846	707,053	29,352	110,788	847,193
Inter-segment revenue	—	6,524	—	6,524	—	22,136	28,660
Reportable segment revenue	<u>446,018</u>	<u>179,713</u>	<u>87,846</u>	<u>713,577</u>	<u>29,352</u>	<u>132,924</u>	<u>875,853</u>
Reportable segment profit	<u>20,951</u>	<u>55,634</u>	<u>13,675</u>	<u>90,260</u>	<u>9,504</u>	<u>82,624</u>	<u>182,388</u>

(ii) Reconciliations of reportable segment revenues and profit or loss

	Year ended 31 December		
	2012 RMB'000	2013 RMB'000	2014 RMB'000
Revenue			
Reportable segment revenue	748,032	826,245	875,853
Elimination of inter-segment revenue	<u>(35,921)</u>	<u>(31,896)</u>	<u>(28,660)</u>
Consolidated turnover (note 3(a))	<u>712,111</u>	<u>794,349</u>	<u>847,193</u>
Profit			
Reportable segment profit	133,098	151,818	182,388
Elimination of inter-segment profits	<u>(3,562)</u>	<u>(1,393)</u>	<u>(321)</u>
Reportable segment profit derived from			
external customers	129,536	150,425	182,067
Other revenue	10,379	14,612	20,672
Other net income/(loss)	354	33	(710)
Selling and distribution expenses	(33,380)	(35,990)	(36,468)
General and administrative expenses	(25,137)	(25,779)	(46,729)
Finance costs	(3,453)	(5,855)	(9,013)
Change in fair value on convertible redeemable preferred shares	(51,881)	(16,134)	(33,236)
Impairment on goodwill	<u>—</u>	<u>—</u>	<u>(4,714)</u>
Consolidated profit before taxation	<u>26,418</u>	<u>81,312</u>	<u>71,869</u>

4. OTHER REVENUE AND NET INCOME

a) Other revenue

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Franchise fee	6,955	10,884	13,812
Bank interest income	425	268	1,715
Rental income	965	1,418	1,317
Deferred income — government grant (note 21)	882	882	882
Others	1,152	1,160	2,946
	<u>10,379</u>	<u>14,612</u>	<u>20,672</u>

b) Other net income/(loss)

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Loss on disposal of property, plant and equipment	(81)	(32)	(1,992)
Gain on disposal of a subsidiary	392	—	—
Net foreign exchange gain/(loss)	43	(2)	—
Reversal of impairment of trade receivables	—	—	1,239
Recovery of other receivables written off in prior years	—	67	43
	<u>354</u>	<u>33</u>	<u>(710)</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

a) Finance costs

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Total interest expense on financial liabilities not at fair value through profit or loss:			
Interest on bank borrowings wholly repayable within 5 years	2,868	4,114	4,820
Bills charges	49	1,293	3,642
Other bank charges	536	448	551
	<u>3,453</u>	<u>5,855</u>	<u>9,013</u>

b) Staff costs (including directors' remuneration)

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Salaries, wages and other benefits	19,660	20,144	20,802
Contributions to defined contribution retirement plans	4,661	4,509	3,710
	<u>24,321</u>	<u>24,653</u>	<u>24,512</u>

c) Other items

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Amortisation of intangible assets	455	522	619
Amortisation of prepaid land lease payments	89	109	109
Depreciation of property, plant and equipment	2,874	3,771	9,368
Auditors' remuneration	36	1,181	2,416
Operating lease charges in respect of property rentals	3,835	7,350	11,963
Provision for/(reversal of) impairment of trade receivables (note 16(b))	1,368	3,052	(1,239)
Write off of other receivables	33	505	1,093
Impairment on goodwill	—	—	4,714
Cost of inventories [#] (note 15(b))	<u>582,575</u>	<u>643,924</u>	<u>665,126</u>

[#] Cost of inventories for the years ended 31 December 2012, 2013 and 2014 include RMB2,013,000, RMB2,137,000 and RMB2,178,000, respectively, relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) and note 5(c) for each of these types of expenses.

6. INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

a) Income tax in the consolidated statements of profit or loss represents:

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current tax — PRC Corporation Income Tax			
Provision for the year	18,161	19,465	26,624
Deferred tax			
Origination and reversal of temporary differences	<u>(1,051)</u>	<u>(1,222)</u>	<u>(884)</u>
	<u>17,110</u>	<u>18,243</u>	<u>25,740</u>

- i) Pursuant to rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.
- ii) No Hong Kong Profits Tax for the years ended 31 December 2012, 2013 and 2014 have been provided for in the Financial Information as the Group has no estimated assessable profits arising in Hong Kong during the years.
- iii) The Group's PRC subsidiaries are subject to PRC Corporate Income Tax at the statutory rate of 25%.

Toyot Pa Shun Medicine Factory Company Limited ("Toyot Pa Shun"), a wholly-owned subsidiary of the Group, applied for preferential income tax treatment under the Notice on the Issues of Tax Policies for Thorough Implementation of Western Development Strategy. Toyot Pa Shun obtained the approval from local tax authority and became entitled to a preferential income tax rate of 15% from 1 January 2011 to 31 December 2020.

b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Profit before taxation	26,418	81,312	71,869
Notional tax on profit before taxation, calculated at the statutory tax rates applicable to the profits in the jurisdictions concerned	15,361	18,579	22,550
Effect of non-deductible expenses	2,415	688	3,859
Effect of non-taxable income	(676)	(1,053)	(863)
Effect of unused tax losses not recognised	10	27	194
Others	—	2	—
Actual tax expense	17,110	18,243	25,740

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

For the year ended 31 December 2012:

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors				
Chen Yenfei	40	—	—	40
Su Si	—	170	44	214
Zhou Jian	—	140	47	187
Shen Shun	—	134	45	179
Non-executive directors				
Li Ho Tan	—	—	—	—
Masahiro Honna	—	—	—	—
	<u>40</u>	<u>444</u>	<u>136</u>	<u>620</u>

For the year ended 31 December 2013:

	Directors' fees	Salaries, allowances and other benefits in kind	Retirement scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive directors				
Chen Yenfei	39	—	—	39
Su Si	—	206	65	271
Zhou Jian	—	141	55	196
Shen Shun	—	143	47	190
Non-executive directors				
Li Ho Tan	—	—	—	—
Masahiro Honna	—	—	—	—
	<u>39</u>	<u>490</u>	<u>167</u>	<u>696</u>

For the year ended 31 December 2014:

	Directors' fees <i>RMB'000</i>	Salaries, allowances and other benefits in kind <i>RMB'000</i>	Retirement scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Executive directors				
Chen Yenfei	—	—	—	—
Su Si	—	185	16	201
Zhou Jian	—	135	32	167
Shen Shun	—	171	14	185
Non-executive directors				
Li Ho Tan	—	—	—	—
Masahiro Honna	—	—	—	—
	—	491	62	553

Notes:

- (i) During the Track Record Period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.
- (ii) The Company did not have any share option scheme for the purchase of ordinary Shares in the Company during the Track Record Period.

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three, three and three for the years ended 31 December 2012, 2013 and 2014, respectively, are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Salaries and other emoluments	257	273	821
Retirement scheme contributions	77	69	12
	334	342	833

The emoluments of the above individuals with the highest emoluments are within the following bands:

	Year ended 31 December		
	2012	2013	2014
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
Nil to RMB1,000,000	<u>2</u>	<u>2</u>	<u>2</u>

9. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share for the years ended 31 December 2012, 2013 and 2014 is based on the profit attributable to equity shareholders of the Company of RMB9,409,000, RMB63,070,000 and RMB45,944,000 for the years ended 31 December 2012, 2013 and 2014 respectively and the weighted average number of ordinary shares in issue during each reporting period, calculated as follows:

Weighted average number of ordinary shares

	Year ended 31 December		
	2012	2013	2014
	<i>Number of Shares '000</i>	<i>Number of Shares '000</i>	<i>Number of Shares '000</i>
Ordinary shares issued at beginning of the year	857	703	703
Effect of redesignation of ordinary shares to convertible redeemable preferred shares (note 24(b)(iii))	<u>(130)</u>	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares at the end of year	<u>727</u>	<u>703</u>	<u>703</u>

The basic earnings per share as presented above has not taken into account the proposal capitalisation issue as described in note 32 because the proposed capitalisation issue has not become effective as of the date of this report.

b) Diluted earnings per share

The calculation of diluted earnings per share for the years ended 31 December 2012, 2013 and 2014 is based on the profit attributable to equity shareholders of the Company of RMB9,409,000, RMB79,204,000 and RMB45,944,000 and the weighted average number of ordinary shares of 727,000, 1,000,000, and 703,000 shares, respectively, in issue during each reporting period, calculated as follows:

(i) Profits attributable to ordinary equity shareholders of the Company (diluted)

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Profit attributable to equity shareholders of the Company	9,409	63,070	45,944
After tax effect of change in fair value on convertible redeemable preferred shares	—	16,134	—
Profit attributable to equity shareholders of the Company (diluted)	<u>9,409</u>	<u>79,204</u>	<u>45,944</u>

(ii) Weighted average number of ordinary shares (diluted)

	Year ended 31 December		
	2012 <i>Number of shares '000</i>	2013 <i>Number of shares '000</i>	2014 <i>Number of shares '000</i>
Weighted average number of ordinary shares	727	703	703
Effect of conversion of convertible redeemable preferred shares	—	297	—
Weighted average number of shares (diluted)	<u>727</u>	<u>1,000</u>	<u>703</u>

For the year ended 31 December 2012 and 2014, diluted earnings per share is the same as basic earnings per share because the effect of conversion of the Company's outstanding convertible redeemable preferred shares during the reporting period was anti-dilutive. Accordingly, they were not included in the calculation of diluted earnings per share in the year.

10. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and other office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2012	49,374	2,101	3,365	3,404	3,796	500	62,540
Additions	—	2,026	—	1,530	314	—	3,870
Disposal of a subsidiary	—	(18)	—	(40)	(243)	—	(301)
Disposals	—	(106)	—	(128)	(98)	—	(332)
At 31 December 2012	49,374	4,003	3,365	4,766	3,769	500	65,777
At 1 January 2013	49,374	4,003	3,365	4,766	3,769	500	65,777
Additions	—	5,692	—	1,354	437	3,040	10,523
Acquisition of subsidiaries (note 23)	—	1,728	—	243	32	—	2,003
Transfer from CIP	—	520	—	—	—	(520)	—
Disposals	—	—	—	(71)	(822)	—	(893)
At 31 December 2013	49,374	11,943	3,365	6,292	3,416	3,020	77,410
At 1 January 2014	49,374	11,943	3,365	6,292	3,416	3,020	77,410
Additions	—	9,870	556	10,181	73	8,634	29,314
Transfer from CIP	4,080	551	—	—	—	(4,631)	—
Disposals	(3,683)	(2,608)	(74)	—	—	—	(6,365)
At 31 December 2014	49,771	19,756	3,847	16,473	3,489	7,023	100,359
Accumulated depreciation:							
At 1 January 2012	2,634	112	2,812	1,292	2,022	—	8,872
Depreciation for the year	1,387	268	98	557	564	—	2,874
Written back on disposal of a subsidiary	—	(2)	—	(8)	(39)	—	(49)
Written back on disposals	—	(29)	—	(121)	(93)	—	(243)
At 31 December 2012	4,021	349	2,910	1,720	2,454	—	11,454

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and other office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2013	4,021	349	2,910	1,720	2,454	—	11,454
Depreciation for the year	1,319	990	63	850	549	—	3,771
Written back on disposals	—	—	—	(67)	(705)	—	(772)
At 31 December 2013	5,340	1,339	2,973	2,503	2,298	—	14,453
At 1 January 2014	5,340	1,339	2,973	2,503	2,298	—	14,453
Depreciation for the year	3,981	2,068	75	2,763	481	—	9,368
Written back on disposals	(3,683)	(617)	(67)	—	—	—	(4,367)
At 31 December 2014	5,638	2,790	2,981	5,266	2,779	—	19,454
Net book value:							
At 31 December 2012	45,353	3,654	455	3,046	1,315	500	54,323
At 31 December 2013	44,034	10,604	392	3,789	1,118	3,020	62,957
At 31 December 2014	44,133	16,966	866	11,207	710	7,023	80,905

Notes:

- (i) As of 31 December 2012, 2013 and 2014, the buildings with carrying amount of RMB42,211,000, RMB41,132,000 and RMB44,132,000, respectively, were situated at a parcel of land that the application of land use right certificate is still under progress.
- (ii) As of 31 December 2012 and 2013, certain buildings of the Group with carrying amount of RMB42,211,000 and RMB43,225,000, respectively, were pledged to secure certain of the Group's bank borrowings (note 19).

11. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land leases represent prepayments of land use rights in respect of land located in the PRC under medium-term leases.

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cost:			
As of the beginning and the end of the year	3,779	3,779	3,779
Accumulated amortisation:			
As of the beginning of the year	1,004	1,093	1,202
Charge for the year	89	109	109
As of the end of the year	1,093	1,202	1,311
Net book value:			
As of the end of the year	<u>2,686</u>	<u>2,577</u>	<u>2,468</u>

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Analysed for reporting purposes as:			
Current asset (included in trade and other receivables)	89	109	109
Non-current asset	<u>2,597</u>	<u>2,468</u>	<u>2,359</u>
	<u>2,686</u>	<u>2,577</u>	<u>2,468</u>

Notes:

- (i) As of 31 December 2012 and 2013, certain of the Group's prepaid land lease payments with net carrying amount of RMB982,000 and RMB2,577,000, respectively, were pledged to secure certain of the Group's bank borrowings (note 19).
- (ii) As of 31 December 2012, 2013 and 2014, the application of land use rights certificate of a parcel of land with net carrying amount of RMB982,000, RMB952,000 and RMB922,000, respectively, was still under progress.

12. INTANGIBLE ASSETS AND PREPAYMENT FOR INTANGIBLE ASSET

(a) Intangible assets

	Patent <i>RMB'000</i>	Computer software <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At 1 January 2012	2,000	2,674	4,674
Additions	—	898	898
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2012	2,000	3,572	5,572
	-----	-----	-----
At 1 January 2013	2,000	3,572	5,572
Additions	—	2,174	2,174
Acquisition of subsidiaries (note 23)	—	152	152
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2013	2,000	5,898	7,898
	-----	-----	-----
At 1 January 2014	2,000	5,898	7,898
Additions	—	1,365	1,365
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2014	2,000	7,263	9,263
	-----	-----	-----
Accumulated amortisation:			
At 1 January 2012	1,450	193	1,643
Charge for the year	100	355	455
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2012	1,550	548	2,098
	-----	-----	-----
At 1 January 2013	1,550	548	2,098
Charge for the year	100	422	522
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2013	1,650	970	2,620
	-----	-----	-----
At 1 January 2014	1,650	970	2,620
Charge for the year	100	519	619
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2014	1,750	1,489	3,239
	-----	-----	-----

	Patent <i>RMB'000</i>	Computer software <i>RMB'000</i>	Total <i>RMB'000</i>
Net book value:			
At 31 December 2012	450	3,024	3,474
At 31 December 2013	350	4,928	5,278
At 31 December 2014	250	5,774	6,024

The amortisation charges for the Track Record Period are included in “general and administrative expenses” and “selling and distribution expenses” in the consolidated statements of profit or loss.

(b) Prepayment for intangible asset

The Company entered into a technology cooperation agreement with Beijing Runbofude Biotechnology Co., Ltd (“Beijing Runbofude”), an independent third party, to acquire the patented technology from Beijing Runbofude for a ten-year period from 1 January 2014 to 31 December 2023 at a consideration of RMB20,000,000.

On 28 July 2014, the Company signed a supplementary agreement with Beijing Runbofude in respect of acquisition of the patented technology relating to a revised ten-year period commencing from the installation and testing of production plant and equipments approved by Beijing Runbofude.

13. GOODWILL

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cost and carrying amount:			
At 1 January	17	17	6,009
Acquisition of subsidiaries (note 23)	—	5,992	—
Impairment loss	—	—	(4,714)
At 31 December	17	6,009	1,295

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified as follows:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Hebei Chun Sheng Tang Chain Store Co., Ltd. ("Chunshengtang") (河北春生堂大藥房連鎖有限公司)	17	17	17
Hubei Baixintang Pharmacy Chain Store Co., Ltd. ("Baixintang") (湖北百信堂大藥房連鎖有限公司)	—	5,992	1,278
	<u>17</u>	<u>6,009</u>	<u>1,295</u>

(a) Goodwill arising from the acquisition of Chunshengtang

In the opinion of the Company's directors, no impairment of goodwill of Chunshengtang is considered necessary for the years ended 31 December 2012, 2013 and 2014.

(b) Goodwill arising from the acquisition of Baixintang

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated constant growth rate of 3% (2013: 5%) which is consistent with external information sources. The cash flows are discounted using a discount rate of 17% (2013: 16%) based on the Group's weighted average cost of capital. Key assumptions used for the value-in-use calculations are the gross margins and growth rates. Management determined the budgeted gross margins and growth rates based on past performance and its expectation for market development. The discount rate used is pre-tax and reflect specific risks relating to the CGU.

The recoverable amount of the CGU based on the value-in-use calculations is higher than its carrying amount as of 31 December 2013. Accordingly, the directors of the Company considered that there was no impairment of goodwill as of 31 December 2013.

The impairment loss recognised during the year ended 31 December 2014 solely relates to the Group's retail business activities based in Hubei. As the cash generating unit has been reduced to its recoverable amount of RMB2,303,000, any adverse change in the key assumptions used in the calculation of recoverable amount would result in further impairment losses.

14. OTHER NON-CURRENT ASSETS

	As of 31 December		
	2012 RMB'000	2013 RMB'000	2014 RMB'000
Deposits			
— Deposits for property plant and equipment	—	10,000	11,657
— Deposits for acquisition of retail pharmacy stores	8,642	7,541	5,520
— Deposit paid for potential acquisition (see note (i) below)	—	30,000	—
— Guarantee deposit (see note (ii) below)	—	5,000	5,000
	<u>8,642</u>	<u>52,541</u>	<u>22,177</u>

Notes:

- (i) On 15 December 2013, the Company entered into an agreement with independent third parties to acquire 100% equity interest in an unlisted company and paid a deposit of RMB30,000,000. The agreement was cancelled on 7 March 2014 and the deposit paid was fully refunded.
- (ii) Guarantee deposit represented the deposit paid for a ten-year period Chinese herbal planting project which will be refunded upon the completion of the project.

15. INVENTORIES

- a) Inventories in the consolidated statements of financial position comprise:

	As of 31 December		
	2012 RMB'000	2013 RMB'000	2014 RMB'000
Raw materials	5,102	3,590	2,667
Work in progress	1,040	748	404
Finished goods	61,717	54,462	66,040
Consumables	17	17	17
	<u>67,876</u>	<u>58,817</u>	<u>69,128</u>

Note: As of 31 December 2013, certain of the Group's inventories with the carrying amount of RMB46,418,000 were pledged to secure the Group's bills payables of RMB39,805,000.

- b) The analysis of the amount of inventories recognised as an expense and included in the profit or loss is as follows:

	Year ended 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Carrying amount of inventories sold	582,575	643,924	665,126

16. TRADE AND OTHER RECEIVABLES

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade receivables	145,577	155,919	218,563
Commercial bills receivables	—	18,000	20,500
Less: allowance for doubtful debts	(7,464)	(10,516)	(9,254)
	138,113	163,403	229,809
Bank bills receivables (see note (d) below)	3,140	389	5,507
Advance payments to suppliers	55,217	101,628	91,123
Other deposits, prepayments and receivables (see note (e) below)	95,897	85,189	37,360
	292,367	350,609	363,799

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

a) Ageing analysis of trade receivables and commercial bills receivables

As of the end of each of the reporting periods, the ageing analysis of trade receivables and commercial bills receivables (which are included in trade and other receivables), based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 1 month	27,799	27,520	80,229
1 to 3 months	31,756	31,706	98,686
4 to 6 months	27,630	28,182	41,791
Over 6 months	50,928	75,995	9,103
Trade receivables and commercial bills receivables, net of allowance for doubtful debts	<u>138,113</u>	<u>163,403</u>	<u>229,809</u>

Trade receivables and commercial bills receivables are due within 180 days from the date of billing.

Further details on the Group's credit policy are set out in note 25(a).

b) Impairment of trade receivables and commercial bills receivables

Impairment losses in respect of trade receivables and commercial bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and commercial bills receivables directly (see note 1(k)).

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	6,096	7,464	10,516
Impairment losses/(reversal of impairment losses) recognised	1,368	3,052	(1,239)
Uncollectible amounts written off	—	—	(23)
At 31 December	<u>7,464</u>	<u>10,516</u>	<u>9,254</u>

As of 31 December 2012, 2013 and 2014, the Group's trade receivables and commercial bills receivables of RMB7,464,000, RMB10,516,000 and RMB9,254,000 respectively were individually determined to be impaired. The individually impaired receivables related to certain long-aged receivables for which management assessed that the whole amount of the receivables is not expected to be recovered based on management's experience. Consequently, specific allowances for doubtful debts of RMB7,464,000, RMB10,516,000 and RMB9,254,000 were recognised as of 31 December 2012, 2013 and 2014, respectively.

c) Trade receivables that are not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Neither past due nor impaired	74,702	80,288	206,119
Less than 1 month past due	15,540	21,342	17,498
1 to 3 months past due	12,266	25,332	3,722
4 to 6 months past due	15,806	5,424	501
Over 6 months past due	19,799	31,017	1,969
	<u>63,411</u>	<u>83,115</u>	<u>23,690</u>
	<u><u>138,113</u></u>	<u><u>163,403</u></u>	<u><u>229,809</u></u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

d) The ageing of bank bills receivables is within 180 days.

- e) The breakdown of other deposits, prepayments and receivables is as follows:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Advances to third parties (see note (i) below)	52,926	55,666	—
Deposit paid for research and development project	8,000	—	—
Government grant receivable (note 21)	7,000	7,000	7,000
Consideration receivables on disposal of subsidiaries	6,500	2,500	—
Prepaid land lease prepayments (note 11)	89	109	109
Advance to a staff (see note (ii) below)	7,900	3,200	—
Other taxes recoverable	2,033	2,093	20,686
Others	11,449	14,621	9,565
	<u>95,897</u>	<u>85,189</u>	<u>37,360</u>

Notes:

- (i) The advances are provided to third parties, who are friends of the Controlling Shareholder, Mr. Chen Yenfei. The advances are unsecured, interest-free and have no fixed repayment terms. The advances are subsequently fully settled in June 2014.
- (ii) This advance to the staff is unsecured, interest-free and has no fixed terms of repayment. Amounts of RMB2,200,000, RMB3,200,000 and RMBnil as of 31 December 2012, 2013 and 2014, respectively, included in the advance to the staff were for the use as bank deposit to provide guarantee for issuance of the Group's bank bills. The bills facilities were utilised to the extent of RMB4,000,000, RMB6,000,000 and RMBnil as of 31 December 2012, 2013 and 2014 respectively.

17. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

The Group

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Pledged bank deposits	15,382	53,977	74,180
Cash and cash equivalents			
— Cash at banks and on hand	<u>39,227</u>	<u>65,375</u>	<u>67,059</u>
	<u>54,609</u>	<u>119,352</u>	<u>141,239</u>

The Company

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cash and cash equivalents			
— Cash at banks and on hand	<u>11,163</u>	<u>9,021</u>	<u>2</u>

Notes:

- (i) Deposits at bank of the Group as of 31 December 2012, 2013 and 2014 of RMB15,382,000, RMB53,977,000 and RMB63,880,000 respectively, were pledged to banks for bills facilities. The pledged bank deposits will be released upon the settlement of relevant bills payables. The bills facilities were utilised to the extent of RMB56,797,000, RMB116,558,000 and RMB107,524,000 as of 31 December 2012, 2013 and 2014 respectively.
- (ii) Bank deposit of the Group as of 31 December 2014 of RMB10,300,000 was pledged to a bank for bank borrowings. This pledged bank deposit will be released upon the repayment of the bank borrowings.
- (iii) Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of the cash and cash equivalents and the pledged bank deposits approximate their fair values.
- (iv) As of 31 December 2012, 2013 and 2014, cash and cash equivalents and pledged bank deposits placed with banks in the PRC amounted to RMB42,015,000, RMB108,289,000 and RMB141,194,000, respectively. Remittance of funds out of the PRC is subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

18. TRADE AND OTHER PAYABLES**The Group**

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade creditors	57,285	52,692	28,617
Bills payables (see note (i) below)	60,797	122,558	107,524
Deposits received from customers	7,469	8,840	16,337
Salaries, wages and welfare payables	7,482	9,637	9,120
Other tax payables	2,088	6,663	8,080
Advance from a third party (see note (ii) below)	6,500	—	—
Other payables and accrued expenses	<u>9,161</u>	<u>8,576</u>	<u>14,654</u>
	<u>150,782</u>	<u>208,966</u>	<u>184,332</u>

Notes:

- (i) Except for the information as disclosed in notes 16(e) and 17, as of 31 December 2013, the bills payables of RMB39,805,000 were secured by inventories held by a subsidiary of RMB46,418,000. Bills payables at the end of each reporting period are aged with 180 days.
- (ii) The advance is unsecured, interest-free and have no fixed repayment terms. The advance was subsequently fully settled in 2013.

As of the end of each reporting period, the ageing analysis of trade creditors (which are included in trade and other payables), based on the invoice date, is as follows:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 1 month	9,992	9,077	11,184
1 to 3 months	16,225	14,635	4,231
Over 3 months	31,068	28,980	13,202
	<u>57,285</u>	<u>52,692</u>	<u>28,617</u>

The Company

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Accruals for listing expenses	1,244	2,433	3,157
	<u>1,244</u>	<u>2,433</u>	<u>3,157</u>

19. BANK BORROWINGS

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Carrying amount of bank loans repayable within one year and shown under current liabilities			
— secured	14,000	45,000	20,000
— unsecured	10,000	30,000	30,000
	<u>24,000</u>	<u>75,000</u>	<u>50,000</u>

All bank loans bear interest at floating interest rates of 7.2% to 7.9% per annum, 6.0% to 7.8% per annum and 5.6% to 7.8% per annum for the years ended 31 December 2012, 2013 and 2014 respectively, which approximate to market rates of interest.

At 31 December 2012, 2013 and 2014, the bank loans were secured by:

- (i) As of 31 December 2012 and 2013, bank loans amounted to RMB14,000,000 and RMB35,000,000 were secured by (1) the buildings owned by subsidiaries with carrying amount of RMB42,211,000 and RMB43,225,000, respectively; (2) prepaid land leases held by subsidiaries with carrying amount of RMB982,000 and RMB2,577,000, respectively; (3) corporate guarantee from a subsidiary; and (4) personal guarantee from the Controlling Shareholder, Mr. Chen Yenfei.
- (ii) As of 31 December 2013 and 2014, bank loans amounted to RMB10,000,000 and RMB10,000,000 were secured by (1) the trade receivables balances of RMB870,000 and RMB47,948,000, respectively; (2) corporate guarantee by a subsidiary; and (3) personal guarantee from the Controlling Shareholder, Mr. Chen Yenfei.
- (iii) As of 31 December 2014, bank loan amounted to RMB10,000,000 was secured by the pledged bank deposit of RMB10,300,000.
- (iv) As of 31 December 2012 and 2013, bank loans amounted to RMB10,000,000 and RMB10,000,000, respectively, were secured by (1) the land and building owned by a related company, Chengdu Yiming Investment Management Co., Ltd.; (2) corporate guarantee by a subsidiary; and (3) personal guarantee from the Controlling Shareholder, Mr. Chen Yenfei; and as of 31 December 2014, this bank loan was secured by (1) the land and building owned by a related company, Chengdu Yiming Investment Management Co., Ltd.; and (2) corporate guarantee by a subsidiary.
- (v) As of 31 December 2013 and 2014, bank loan amounted to RMB20,000,000 and RMB20,000,000, respectively, was secured by (1) the land and building owned by a related company, Chengdu Yiming Investment Management Co., Ltd.; and (2) corporate guarantee of an independent third party, Wuhan Taifu Pharmaceutical Company Limited.

The directors confirmed that the personal guarantees provided by the Controlling Shareholder will be released prior to the listing of the shares of the Company on the main board of The Stock Exchange of Hong Kong Limited.

20. CONVERTIBLE REDEEMABLE PREFERRED SHARES

The Group and the Company

Pursuant to a Series A preferred share subscription agreement entered into between the Company, the Controlling Shareholder, Praise Treasure Limited (“Praise Treasure”), a company owned by the Controlling Shareholder, Hong Kong Investments Group Limited (“Hong Kong Investments”), an independent investor, and among others on 31 December 2011, the Company agreed to issue 102,912 Series A convertible redeemable preferred shares of par value of HK\$0.001 each (“Series A Shares”) to Hong Kong Investments for a consideration of US\$8,000,000, and the

Group received an amount of US\$6,000,000, which is equivalent to approximately RMB37,804,000. The remaining amount of US\$2,000,000 (equivalent to approximately RMB12,441,000) was received in 2012.

On 31 December 2011, Hong Kong Investments and Praise Treasure entered into a share transfer agreement, pursuant to which Hong Kong Investments agreed to acquire from Praise Treasure 154,368 ordinary Shares for a consideration of US\$12,000,000, with the intention that such ordinary Shares would be reclassified and redesignated as Series A Shares upon completion.

Pursuant to a Series B preferred share subscription agreement entered into between the Company, the Controlling Shareholder, Praise Treasure and V-drug Hong Kong Co., Limited (“V-drug”), an independent investor, on 6 January 2012, the Company agreed to issue 40,000 Series B convertible redeemable preferred shares of par value of HK\$0.001 each (“Series B Shares”) for a consideration of US\$5,000,000 (equivalent to approximately RMB31,101,000), which was received in 2012.

On 27 February 2012, the shares subscriptions and shares transfer upon the aforementioned Series A preferred share subscription agreement, share transfer agreement and Series B preferred share subscription agreement were completed.

The Series A Shares and Series B Shares have the same voting rights as the ordinary Shares and contain the following terms:

(a) Conversion of preferred shares

The Series A Shares and Series B Shares are convertible at any time at the option of the holders into such number of fully-paid and non-assessable ordinary Shares as is determined by dividing the subscription price by the then effective conversion price, which shall be calculated after adjustments of certain events. The subscription prices of Series A Share (“Subscription Price of Series A Shares”) and Series B Share (“Subscription Price of Series B Shares”) are US\$77.74 and US\$125 per share, respectively. The conversion prices of Series A Shares (“Conversion Price of Series A Shares”) and Series B Shares (“Conversion Price of Series B Shares”) shall initially be the same as the Subscription Price of Series A Shares and Subscription Price of Series B Shares, respectively and shall be subject to adjustment for certain events, including but not limited to share split and subdivision, share combination and consolidation.

(b) Automatic conversion feature

Each Series A Share or Series B Shares shall be automatically converted into ordinary shares at the conversion price at the time in effect immediately upon (i) the consummation of a qualified initial public offering (“Qualified IPO”) or (ii) the date specified by written consent or agreement of majority holders in respect of Series A Shares or Series B Shares.

(c) Redemption terms*i) For Series A Shares*

At any time (1) after no Qualified IPO has occurred on or before 31 December 2012 (or such later date as agreed upon by all holders of Series A Shares in writing) or (2) an event of default (as defined in the Series A share subscription agreement) has occurred, the holders of Series A Shares shall have the right to require the Company to redeem all or part of such outstanding Series A Shares at a redemption price equal to the Subscription Price of Series A Shares plus an amount which would enable such holders of Series A Shares to achieve the annual return rate at 10% and all declared but unpaid dividends and distributions on such outstanding Series A Shares up to and including the date of redemption.

Pursuant to a deed of amendment relating to the Series A preferred share subscription agreement entered into between the Company, the Controlling Shareholder, Praise Treasure, Hong Kong Investments, and among others (“contract parties”), on 22 May 2014, certain clauses under the Series A preferred share subscription agreement were amended, including an event triggered the repayment term as stated in (1) above, which has been amended from “31 December 2012” to “31 December 2014”. On 12 February 2015, the contract parties entered into a second deed of amendment, certain clauses were further amended, an event triggered repayment term has been amended from “31 December 2014” to “31 December 2015”.

ii) For Series B Shares

At any time an event of default (as defined in the Series B preferred share subscription agreement) has occurred, the holders of Series B Shares shall have the right to require the Company to redeem all or part of such outstanding Series B Shares at a redemption price equal to the Subscription Price of Series B Shares plus an amount which would enable such holders of Series B Shares to achieve the annual return rate at 10% and all declared but unpaid dividends and distributions on such outstanding Series B Shares up to and including the date of redemption.

(d) Dividends

Any dividend payable by the Company shall be paid on a pro rata basis to all ordinary Shares and all Series A Shares (on an “as converted” basis) and all Series B Shares (on an as-converted basis). The holders of Series A Shares and Series B Shares shall also be entitled to receive any non-cash dividends declared by the Company’s board on an “as converted” basis.

(e) Liquidation preference

On a return of capital on winding up or liquidation (other than on redemption of the Series A Shares and Series B Shares), the holders of the Series A Shares and Series B Shares are first entitled to an amount up to the aggregate subscription price paid for the Series A Shares and Series B Shares plus all declared but unpaid dividends and distributions on each of the Series A Shares and Series B Shares calculated up to and including the date of commencement of the liquidation before paying to the ordinary shareholders, and then to participate in the distribution of any remaining assets of the

Company pro-rata with the ordinary shareholders based on the number of ordinary Shares into which the Series A Shares and Series B Shares are convertible (immediately prior to such distribution).

The Series A Shares and Series B Shares contain two components: a liability component and conversion option component.

The Group has elected to designate the Series A Shares and Series B Shares with embedded derivatives as financial liabilities at fair value through profit or loss on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire Series A Shares and Series B Shares are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

The movements of the Series A Shares and Series B Shares are as follows:

	<i>RMB'000</i>
Group and Company	
At 1 January 2012	—
Issuance of Series A Shares and Series B Shares on 27 February 2012	155,507
Change in fair value	51,881
Exchange realignment	<u>28</u>
At 31 December 2012 and 1 January 2013	207,416
Change in fair value	16,134
Exchange realignment	<u>(5,460)</u>
At 31 December 2013 and 1 January 2014	218,090
Change in fair value	33,236
Exchange realignment	<u>5,786</u>
At 31 December 2014	<u><u>257,112</u></u>

	As of 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed for reporting purpose as:			
Current liabilities	173,560	184,717	220,355
Non-current liabilities	<u>33,856</u>	<u>33,373</u>	<u>36,757</u>
	<u><u>207,416</u></u>	<u><u>218,090</u></u>	<u><u>257,112</u></u>

According to the redemption terms as mentioned in the Series A preferred share subscription agreement and the relevant deeds of amendment, the Series A Shares are classified as current liabilities. However, the directors of the Company are of the opinion that the Series A Shares are expected to be settled after more than one year if no Qualified IPO has occurred on or before 31 December 2015.

For the years ended 31 December 2012, 2013 and 2014, the estimation of fair value of convertible redeemable preferred shares are performed by Savills Valuation and Professional Services Limited, an independent professional valuer not connected with the Group.

The fair value of the Series A Shares and Series B Shares is equal to the summation of the fair value of the liability component and the embedded derivatives calculated using discounted cash flows and option-pricing method. The valuer has adopted an equity value allocation method known as option-pricing method. The valuer has used the discounted cash flow method to determine the underlying equity fair value of the Company and adopted an equity allocation method to determine the fair value of the Series A Shares and Series B Shares as of the end of each reporting period. The option-pricing method has commonly used the Black-Scholes model to price the call option, which assumes that conversion would only take place at the liquidity event date which is a common practice to private equity investment into pre-IPO companies. The major inputs used for the calculation are as follow:

	As of 31 December		
	2012	2013	2014
Discount rate (note (i))	14.0%	14.0%	15.0%
Expected volatility (note (ii))	41.9%	40.8%	43.2%
Risk-free rate (note (iii))	1.0%	0.9%	1.1%
Expected dividend yield	0%	0%	0%

Notes:

- (i) The Discount rate was estimated by weighted average cost of capital as of each valuation date.
- (ii) The expected volatility is estimated based on past years historical price volatility of listed companies with similar business nature.
- (iii) Risk-free interest rate is estimated based on the market yield of a USD Hong Kong Government Bond as of the valuation date.

21. DEFERRED INCOME — GOVERNMENT GRANT

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	30,000	29,118	28,236
Credited to profit or loss	(882)	(882)	(882)
At 31 December	<u>29,118</u>	<u>28,236</u>	<u>27,354</u>

As of 31 December 2012, 2013 and 2014, deferred income of the Group mainly represented government compensation in respect of the exchange of land use rights with local government.

Such deferred income will be recognised as income on a straight-line basis over the expected useful life of the relevant assets.

22. INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**a) Current taxation in the consolidated statements of financial position represents:**

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
PRC Enterprise Income Tax	<u>12,797</u>	<u>13,788</u>	<u>13,472</u>

The movement of the current taxation in the consolidated statements of financial position during the year/period are as follows:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
At the beginning of the year	15,002	12,797	13,788
Charge for the year	18,161	19,465	26,624
Tax paid for the year	(20,366)	(18,474)	(26,940)
At end of the year	<u>12,797</u>	<u>13,788</u>	<u>13,472</u>

b) Deferred tax assets recognised:

The components of deferred tax assets recognised in the consolidated statements of financial position and the movements during the Track Record Period are as follows:

	Provision for impairment <i>RMB'000</i>	Provision for accrued expenses <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2012	1,384	632	878	2,894
Credited to profit or loss	324	679	48	1,051
At 31 December 2012 and 1 January 2013	1,708	1,311	926	3,945
Credited/(charged) to profit or loss	818	588	(184)	1,222
At 31 December 2013 and 1 January 2014	2,526	1,899	742	5,167
Credited/(charged) to profit or loss	(364)	—	1,248	884
At 31 December 2014	<u>2,162</u>	<u>1,899</u>	<u>1,990</u>	<u>6,051</u>

c) Deferred tax assets and liabilities not recognised:

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends paid in respect of profit earned by a PRC subsidiary to its direct holding company outside the PRC from 1 January 2008 onward. Deferred tax liabilities of RMB18,766,000, RMB26,614,000 and RMB36,161,000 was not provided for in the consolidated financial statements of the Group for the years ended 31 December 2012, 2013 and 2014 in respect of undistributed profits of relevant PRC subsidiaries amounted to RMB187,656,000, RMB266,139,000 and RMB361,304,000 as of 31 December 2012, 2013 and 2014, respectively, as the management confirmed that profits generated by the relevant PRC subsidiaries from 2008 to 2014 will not be distributed to its direct holding company outside the PRC in the foreseeable future.

There were no material unrecognised deferred tax assets and liabilities as of 31 December 2012, 2013 and 2014.

At 31 December 2012, 2013 and 2014, the Company does not have any material deferred taxation assets and liabilities.

23. ACQUISITION AND DISPOSAL OF SUBSIDIARIES**a) Acquisition of Baixintang**

On 26 December 2013, the Group acquired 100% equity interest in Baixintang from an independent third party for a consideration of RMB10,000,000. Baixintang is engaged in self-operated retail pharmacies.

Through the acquisition, the Group gains access to the Hubei market. It also expects to reduce costs through synergy effect. The goodwill arising from the acquisition of Baixintang is mainly for the benefit of expected synergies and future market development. None of the goodwill recognised is expected to be deductible for income tax purposes.

The estimated fair values of the identifiable assets and liabilities of Baixintang as of the date of acquisition were as follows:

	Fair value recognised on acquisition <i>RMB'000</i>
Intangible assets	152
Plant and equipment	2,003
Cash and cash equivalents	73
Inventories	1,156
Trade and other receivables	2,848
Amounts due from shareholders	1,295
Trade and other payables	(2,364)
Amounts due to related parties	(1,155)
	<hr/>
Total identifiable net assets	4,008
Goodwill attributable to equity shareholders of the Company	5,992
	<hr/>
Total consideration	10,000
	<hr/> <hr/>
Satisfied by:	
Purchase consideration in cash	10,000
	<hr/> <hr/>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Baixintang is as follows:

	<i>RMB'000</i>
Cash consideration	(10,000)
Cash and cash equivalents acquired	73
	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of Baixintang	(9,927)
	<hr/> <hr/>

Following the acquisition, Baixintang contributed turnover of RMBnil and RMB3,008,000 and loss after taxation of RMBnil and RMB2,641,000, for the year ended 31 December 2013 and 2014, respectively.

Had the above acquisition been occurred on 1 January 2013, the Group's consolidated revenue for the year ended 31 December 2013 would have been increased by RMB3,102,000, and the Group's consolidated profit for the year ended 31 December 2013 would have been decreased by RMB2,797,000.

b) Disposal of Sichuan Pengsen

On 14 June 2012, the Group disposed of its entire equity interests in the wholly-owned subsidiary, Sichuan Pengsen Pharmaceutical Co., Ltd. ("Sichuan Pengsen") (四川鹏森药业有限公司) to an independent third party for a consideration of RMB1,500,000.

The net assets of the subsidiary at the date of the disposal were as follows:

	<i>RMB'000</i>
Plant and equipment	252
Inventories	3,911
Trade and other receivables	16,011
Bank balances and cash	428
Trade and other payables	<u>(19,494)</u>
Net assets	1,108
Total consideration	<u>1,500</u>
Gain on disposal of Sichuan Pengsen (note 4(b))	<u><u>392</u></u>
Total consideration satisfied by:	
— Consideration receivable for disposal of a subsidiary	<u><u>1,500</u></u>
	<i>RMB'000</i>
Net cash outflow arising on disposal:	
— Bank balances and cash disposed of	<u><u>(428)</u></u>

24. CAPITAL AND RESERVES

a) Movement in components of equity

The reconciliation between the opening and closing balances during the Track Record Period of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of each period are set out below:

	The Company				
	Share capital <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total deficit <i>RMB'000</i>
Balance at 1 January 2012	1	29	812	(2,731)	(1,889)
Changes in equity for 2012:					
Loss for the year	—	—	—	(57,079)	(57,079)
Other comprehensive income for the year					
— Exchange difference arising on translation of functional currency to presentation currency	—	920	—	—	920
Total comprehensive income/(expense) for the year	—	920	—	(57,079)	(56,159)
Deemed distribution to the Controlling Shareholder upon redesignation of shares (note 24(b)(iii))	—	—	(75,565)	—	(75,565)
Balance at 31 December 2012	<u>1</u>	<u>949</u>	<u>(74,753)</u>	<u>(59,810)</u>	<u>(133,613)</u>
Balance at 1 January 2013	1	949	(74,753)	(59,810)	(133,613)
Changes in equity for 2013:					
Loss for the year	—	—	—	(18,555)	(18,555)
Other comprehensive income for the year					
— Exchange difference arising on translation of functional currency to presentation currency	—	3,540	—	—	3,540
Total comprehensive income/(expense) for the year	—	3,540	—	(18,555)	(15,015)
Balance at 31 December 2013	<u>1</u>	<u>4,489</u>	<u>(74,753)</u>	<u>(78,365)</u>	<u>(148,628)</u>

	The Company				
	Share capital	Exchange reserve	Other reserve	Accumulated losses	Total deficit
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2014	1	4,489	(74,753)	(78,365)	(148,628)
Changes in equity for 2014					
Loss for the year	—	—	—	(43,403)	(43,403)
Other comprehensive income for the year					
— Exchange difference arising on translation of functional currency to presentation currency	—	(4,025)	—	—	(4,025)
Total comprehensive expense for the year	—	(4,025)	—	(43,403)	(47,428)
Balance at 31 December 2014	<u>1</u>	<u>464</u>	<u>(74,753)</u>	<u>(121,768)</u>	<u>(196,056)</u>

Note: The consolidated profit attributable to equity shareholders of the Company includes losses of RMB57,079,000, RMB18,555,000 and RMB43,403,000 in respect of the years ended 31 December 2012, 2013 and 2014, respectively, which have been dealt with in the financial statements of the Company.

b) Share capital

	Year ended 31 December					
	2012		2013		2014	
	Number of shares '000	<i>HK\$'000</i>	Number of shares '000	<i>HK\$'000</i>	Number of shares '000	<i>HK\$'000</i>
Authorised:						
Ordinary shares of HK\$0.001 each						
At 1 January	380,000	380	230,000	230	230,000	230
Shares reclassified to Series A convertible redeemable preferred shares (note iii)	(100,000)	(100)	—	—	—	—
Shares reclassified to Series B convertible redeemable preferred shares (note iii)	(50,000)	(50)	—	—	—	—
At 31 December	<u>230,000</u>	<u>230</u>	<u>230,000</u>	<u>230</u>	<u>230,000</u>	<u>230</u>

	Year ended 31 December								
	2012			2013			2014		
	Number of shares '000	HK\$'000	RMB'000	Number of shares '000	HK\$'000	RMB'000	Number of shares '000	HK\$'000	RMB'000
Ordinary shares, issued and fully paid:									
At 1 January	857	1	1	703	1	1	703	1	1
Shares reclassified to Series A convertible redeemable preferred shares (note iii)	(154)	—	—	—	—	—	—	—	—
At 31 December	<u>703</u>	<u>1</u>	<u>1</u>	<u>703</u>	<u>1</u>	<u>1</u>	<u>703</u>	<u>1</u>	<u>1</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes:

- (i) The Company was incorporated as a limited liability in the Cayman Islands on 3 May 2011, with an authorised share capital of HK\$380,000 divided into 380,000,000 ordinary Shares of par value of HK\$0.001 each. At the time of the incorporation, Codan Trust Company (Cayman) Limited subscribed for one share in the capital of the Company. On 3 May 2011, the said issued one share of HK\$0.001 in the capital of the Company was transferred to Praise Treasure, a company wholly-owned by the Controlling Shareholder, at par value.
- (ii) On 30 December 2011, 857,087 shares of the Company were allotted and issued at par value to Praise Treasure. On 31 December 2011, Hong Kong Investments and Praise Treasure entered into a share transfer agreement, pursuant to which Hong Kong Investments agreed to acquire from Praise Treasure 154,368 ordinary Shares for a consideration of US\$12,000,000.
- (iii) By a special resolution passed on 27 February 2012, the authorised share capital of the Company was altered to HK\$380,000 divided into 230,000,000 ordinary Shares of a par value of HK\$0.001 each, 100,000,000 Series A Shares and 50,000,000 Series B Shares. On 27 February 2012, 154,368 ordinary Shares of a par value of HK\$0.001 each were reclassified and re-designated as 154,368 Series A Shares, and 102,912 Series A Shares and 40,000 Series B Shares were issued (see note 20). The deemed distribution to the Controlling Shareholder upon redesignation of shares represents reclassification of 154,368 ordinary Shares held by Hong Kong Investments to Series A Shares.

c) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of companies outside the PRC. The reserve is dealt with in accordance with the accounting policies set out in note 1(v).

d) PRC Statutory reserve

Pursuant to the Articles of Association of the Group's PRC subsidiaries and relevant statutory regulations, appropriations to the statutory reserve fund were made at a 10% of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. When the balance of statutory reserve fund reaches 50% of registered capital of each relevant PRC subsidiary, any further appropriation is at the discretion of the shareholders of this subsidiary. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries provided that the balance after such conversion is not less than 25% of their registered capital, and is non-distributable other than in liquidation.

e) Other reserve

Other reserve comprises the following:

- the difference between the Company's cost of acquisition of the subsidiaries over the Company's share of the nominal value of the paid-up capital of the subsidiaries acquired under common control.
- the amount arising from transactions with owners in their capacity as the equity owners.

f) Distributability of reserves

There was no reserve available for distribution to equity shareholders as of 31 December 2012, 2013 and 2014.

g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
ASSETS			
Pledged bank deposits	15,382	53,977	74,180
Cash and cash equivalents	39,227	65,375	67,059
LIABILITIES			
Bank borrowings	24,000	75,000	50,000
Bills payables	60,797	122,558	107,524
Convertible redeemable preferred shares	207,416	218,090	257,112
Amount due to the Controlling Shareholder	8,511	–	–
Amount due to a director	–	–	210
Amounts due to other related parties	405	2,029	232
Advance from a related party	6,500	–	–
EQUITY			
Equity attributable to equity shareholders of the Company			
— Share capital	1	1	1
— Reserves	71,737	140,203	180,218

The directors of the Company review the capital structure on a continuous basis. As part of this review, the Company's directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Company's directors, the Group will balance its overall capital structure through issuance of new shares as well as the addition of new borrowings.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Group's major financial instruments include other non-current assets, trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank borrowings, convertible redeemable preferred shares and amounts due from/to the Controlling Shareholder, directors and related parties. The Company's major financial instruments include cash and cash equivalents, trade and other payables, convertible redeemable preferred shares and amounts due from/to subsidiaries and the Controlling Shareholder. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables, pledged bank deposits, cash at banks and amounts due from the Controlling Shareholder, directors and other related parties. The Company's credit risk is primarily attributable to cash at banks and amounts due from subsidiaries. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

i) Trade and other receivables

Individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Trade receivables are due within 180 days from the date of billing. Monitoring procedures have been implemented to ensure the follow-up action is taken to recover overdue debts. The Group grants credit limits to the customers in consideration of their payment history and business performance. In addition, the Group reviews the recoverable amount of each individual trade and other receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts.

The credit risk on the Group's bank bills receivables is limited because the counterparties are banks with high credit rating.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As of 31 December 2012, 2013 and 2014, 0.8%, 0.3% and 2.0% of the trade and other receivables were due from the Group's largest customers, and 28.2%, 16.1% and 30.6% of the trade and other receivables were due from the Group's five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

ii) Pledged bank deposits and cash at banks

The Group and the Company's cash is deposited with banks with sound credit ratings and the Group and the Company have exposure limit to any single bank. Given their high credit ratings, management does not expect any of these banks will fail to meet their obligations.

iii) Amounts due from the Controlling Shareholder, directors and other related parties

With respect to credit risk arising from amounts due from related parties, the Group's exposure to credit risk arising from default of the counterparties is limited as the counterparties have good history of repayment and the Group does not expect to incur a significant loss for uncollected amounts due from related parties.

The Company's credit risk arising from amounts due from subsidiaries is limited as the management closely monitored the recoverability of the amounts due. In this regard, the directors of the Company consider that the Company's credit risk on it is significantly reduced.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statements of financial position and the Company's statements of financial position.

The Group and the Company does not provide any guarantees which would expose the Group and the Company to credit risk.

b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the management and the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below analyzes the Group and the Company's financial liabilities into relevant grouping based on the remaining period at the end of the reporting period to the contractual maturity date. The amount disclosed in the table are the contractual undiscounted cash flows includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

	The Group			The Company		
	Within one year or on demand <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>	Within one year or on demand <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
At 31 December 2012						
Non-derivative financial liabilities						
Trade and other payables	142,839	142,839	142,839	1,244	1,244	1,244
Amount due to the Controlling Shareholder	8,511	8,511	8,511	1,352	1,352	1,352
Amounts due to other related parties	405	405	405	—	—	—
Bank borrowings	25,132	25,132	24,000	—	—	—
	<u>176,887</u>	<u>176,887</u>	<u>175,755</u>	<u>2,596</u>	<u>2,596</u>	<u>2,596</u>

	The Group			The Company		
	Within one year or on demand <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>	Within one year or on demand <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying amount <i>RMB'000</i>
Financial liabilities						
Financial liability designated at fair value through profit or loss						
Convertible redeemable preferred shares – Series A Shares (see note below)	134,904	134,904	173,560	134,904	134,904	173,560
At 31 December 2013						
Non-derivative financial liabilities						
Trade and other payables	193,984	193,984	193,984	2,433	2,433	2,433
Amount due to the Controlling Shareholder	—	—	—	1,316	1,316	1,316
Amounts due to other related parties	2,029	2,029	2,029	—	—	—
Bank borrowings	76,594	76,594	75,000	—	—	—
	<u>272,607</u>	<u>272,607</u>	<u>271,013</u>	<u>3,749</u>	<u>3,749</u>	<u>3,749</u>
Financial liability designated at fair value through profit or loss						
Convertible redeemable preferred shares – Series A Shares (see note below)	143,486	143,486	184,717	143,486	143,486	184,717
At 31 December 2014						
Non-derivative financial liabilities						
Trade and other payables	167,932	167,932	167,932	3,157	3,157	3,157
Amount due to the Controlling Shareholder	—	—	—	1,653	1,653	1,653
Amounts due to other related parties	232	232	232	—	—	—
Bank borrowings	51,307	51,307	50,000	—	—	—
	<u>219,471</u>	<u>219,471</u>	<u>218,164</u>	<u>4,810</u>	<u>4,810</u>	<u>4,810</u>
Financial liability designated at fair value through profit or loss						
Convertible redeemable preferred shares – Series A Shares (see note below)	159,645	159,645	220,355	159,645	159,645	220,355

As of 31 December 2012, 2013 and 2014, the Series B Shares were not included in the above analysis since the directors of the Company believes that the Company has no contractual obligation to settle the Series B Shares in cash, other than in the event of default as disclosed in note 20.

Note: The maximum exposure of the redemption of Series A Shares is the contractual redemption price which is equal to the Subscription Price of Series A Shares plus an amount which would enable such holders of Series A Shares to achieve the annual return rate at 10% up to and including the date of redemption (see note 20).

c) Interest rate risk

The Group's interest rate risk arises primarily from cash at banks, pledged bank deposits, bank borrowings. Cash at banks and pledged bank deposits issued at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The Group and the Company does not anticipate significant impact to cash at banks and the pledged bank deposits because the interest rates of bank deposits are not expected to change significantly.

The interest rates and terms of repayment of bank loans of the Groups are disclosed in note 19 to the Financial Information. The Group normally borrows short-term bank loans which have short-term maturity within one year in order to limit its exposure to interest rate risk. The Group's interest rate profiles as monitored by the management is set out in (i) below.

- (i) The following table details the interest rate profile of the Group's borrowings at the end of the reporting period:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
The Group			
Fixed rate instruments			
Financial liabilities			
— bank loans	—	(5,000)	(10,000)
Variable rate instruments			
Financial liabilities			
— bank loans	(24,000)	(70,000)	(40,000)
Financial assets			
— cash at banks	34,056	62,771	66,947
— pledged bank deposits	15,382	53,977	74,180
Total net deposits	<u>25,438</u>	<u>41,748</u>	<u>91,127</u>

	As of 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The Company			
Variable rate instruments			
Financial asset			
— Cash at banks	<u>11,163</u>	<u>9,021</u>	<u>2</u>

Sensitivity analysis

As of 31 December 2012, 2013 and 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates for bank borrowings and cash at banks and pledged bank deposits, with all other variables held constant, would increase/decrease the Group's profit after tax (and retained profits) by approximately RMB191,000, RMB351,000 and RMB758,000, respectively.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to floating rate instruments held by the Group which expose the Groups to cash flow interest rate risk at the end of each reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a charge in interest rates. The analysis is performed on the same basis throughout the Track Record Period.

The analysis does not take into account exposure to fair value interest rate risk arising from fixed rate instruments as the Group's exposure to fair value interest risk is insignificant.

d) Foreign currency exchange risk

For presentation purposes, the Group's financial information is shown in RMB. The companies within the Group, whose functional currencies are different from RMB, have translated their financial information into RMB for consolidation purpose. As of 31 December 2012, 2013 and 2014, all companies within the Group have no material financial instruments that were denominated in a currency other than the respective functional currency in which they measured and accordingly the Group has no significant exposure to foreign currency risk.

The functional currency of the Company is USD. The Company did not have material assets or liabilities that are denominated in a currency other than its functional currency and accordingly the Company has no significant exposure of foreign currency risk as of 31 December 2012, 2013 and 2014.

e) Fair value measurement

i) Financial instruments measured at fair value

The following table presents the fair value of financial instruments measured at fair value at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 “*Fair Value Measurement*”. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group engages an independent professional valuer performing valuations for the convertible redeemable preferred shares which are categorised into Level 3 of the fair value hierarchy. The professional valuer reports directly to the chief financial officer and the Company’s directors. Valuation reports with analysis of changes in fair value measurement are prepared by professional valuer at each annual reporting date, and are reviewed and approved by the chief financial officer and the Company’s directors. Discussion of the valuation process and results with the chief financial officer and the Company’s directors is held once a year, to coincide with the reporting dates.

	Fair value measurements categorised into Level 3 as of 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Group and Company			
Recurring fair value measurements			
Liability:			
Financial liability at fair value through profit or loss			
— Convertible redeemable preferred shares	207,416	218,090	257,112

During the years ended 31 December 2012, 2013 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as of the end of the reporting period in which they occur. Upon consummation of Qualified Initial Public Offering on 19 June 2015, the convertible redeemable preferred shares liabilities in level 3 will be automatically converted to equity.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Convertible redeemable preferred shares designated as of fair value through profit or loss	Discounted cash flow method, Black-Scholes model	Expected volatility of 40.8%–43.2%

An external valuer was appointed to prepare valuation of the Group's fair value of convertible redeemable preferred shares at 31 December 2012, 2013 and 2014, details of which are disclosed in note 20. The fair value of convertible redeemable preferred shares are determined using Black-Scholes model and the significant unobservable input used in the fair value measurement is expected volatility.

The fair value measurement of convertible redeemable preferred shares is positively correlated to the expected volatility. As of 31 December 2012, 2013 and 2014, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have decreased/increased the Group's profit before taxation by RMB1,504,000/RMB1,330,000, increased/decreased the Group's profit before taxation by RMB717,000/RMB583,000 and decreased/increased the Group's profit before taxation by RMB355,000/RMB321,000 for the years ended 31 December 2012, 2013 and 2014, respectively.

The movement during the period in the balance of these Level 3 fair value measurements are as follows:

	Year ended 31 December		
	2012 RMB'000	2013 RMB'000	2014 RMB'000
At 1 January	—	207,416	218,090
Issuance of Series A Shares and Series B Shares on 27 February 2012	155,507	—	—
Change in fair value	51,881	16,134	33,236
Exchange realignment	28	(5,460)	5,786
At 31 December	<u>207,416</u>	<u>218,090</u>	<u>257,112</u>
Total losses for the periods included in profit or loss for liability held at the end of the reporting period:			
Loss on change in fair value of convertible redeemable preferred shares	<u>(51,881)</u>	<u>(16,134)</u>	<u>(33,236)</u>
Total (losses)/gains for the periods included in other comprehensive income for liability held at the end of the reporting period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of functional currency to presentation currency	<u>(28)</u>	<u>5,460</u>	<u>(5,786)</u>

ii) *Fair value of financial instruments carried at other than fair value*

The directors of the Company consider that the carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as of 31 December 2012, 2013 and 2014.

26. OPERATING LEASE COMMITMENTS

As of 31 December 2012, 2013 and 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 1 year	3,675	9,047	9,026
After 1 year but within 5 years	11,422	23,153	16,875
	<u>15,097</u>	<u>32,200</u>	<u>25,901</u>

The Group is the lessee in respect of the Group's offices under operating leases. The leases typically run for an initial period of 1 to 8 years, with an option to renew when all terms are renegotiated. Lease payments are usually increased at the end of the lease term to reflect market rentals.

27. CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2012, 2013 and 2014 not provided for in the consolidated financial statements were as follows:

	As of 31 December		
	2012 <i>RMB'000</i>	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>
Commitments for the acquisition of property, plant and equipment:			
— Contracted but not provided for	—	6,355	4,999
	<u>—</u>	<u>6,355</u>	<u>4,999</u>

28. MATERIAL RELATED PARTY TRANSACTIONS

During the years ended 31 December 2012, 2013 and 2014 the transactions or balances with the following parties were considered to be related party transactions:

Name of party	Relationship with the Group
Mr. Chen Yenfei	The Controlling Shareholder
Mr. Su Si	Executive Director of the Company
Mr. Wu Dong Wang	Relative of the Controlling Shareholder
Pa Shun Holdings Limited	Entity controlled by the Controlling Shareholder

Name of party	Relationship with the Group
Wuhan Baixin Pharmaceutical Co., Ltd.	Entity controlled by the Controlling Shareholder
Hubei Bai Xin Food Company Limited	Entity controlled by the Controlling Shareholder
Wuhan Wantong Investment Company Limited	Entity controlled by the Controlling Shareholder
Wuhan Bai Xin Biotechnology Company Limited	Entity controlled by the Controlling Shareholder
Hainan Baixin Pharmaceutical Co., Ltd.	Entity controlled by the Controlling Shareholder
Wuhan Bai Xin Environmental Energy Technology Company Limited	Entity controlled by the Controlling Shareholder
Wuhan Taifu Pharmaceutical Company Limited (note i)	Entity controlled by the Controlling Shareholder
Wuhan Bai Xin Zheng Yuan Biotechnology Engineering Company Limited	Entity controlled by the Controlling Shareholder
Hopecorns Industrial Limited	Entity controlled by the Controlling Shareholder
Chengdu Yiming Investment Management Co., Ltd. ("Chengdu Yiming")	Entity controlled by Mr. Wu Dong Wang

Notes:

- (i) Wuhan Taifu Pharmaceutical Company Limited ceased to be a related party of the Group since March 2012.

a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 is as follows:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	484	529	491
Contributions to defined contribution retirement plans	136	167	62
	<u>620</u>	<u>696</u>	<u>553</u>

Total remuneration is included in staff costs (see note 5(b)).

b) Financing arrangements with related parties

The Group

In addition to the balances disclosed elsewhere in the Financial Information, the Group has the following balances with related parties:

	Note	Amounts owed to the Group by related parties As of 31 December			Amounts owed by the Group to related parties As of 31 December		
		2012	2013	2014	2012	2013	2014
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due from/(to) the Controlling Shareholder, Mr. Chen Yenfei	(i), (ii)	—	1,359	675	(8,511)	—	—
Amount due from/(to) a director, Mr. Su Si	(i), (ii)	92	247	—	—	—	(210)
Amount due to Pa Shun Holdings Limited	(i)	—	—	—	—	(1,632)	—
Amount due to Wuhan Baixin Pharmaceutical Co., Ltd.	(i)	—	—	—	(405)	(366)	—
Amount due to Hubei Bai Xin Food Company Limited	(i)	—	—	—	—	(31)	(24)
Amount due from/(to) Wuhan Wantong Investment Company Limited — non-trade in nature	(i), (ii)	97	546	—	—	—	(88)
Amount due from Wuhan Bai Xin Biotechnology Company Limited — non-trade in nature	(i), (ii)	2,125	—	—	—	—	—
Amount due from/(to) Hainan Baixin Pharmaceutical Co., Ltd. — trade in nature	(i), (ii)	1,401	1,839	—	—	—	—
Amount due from Wuhan Bai Xin Environmental Energy Technology Company Limited — non-trade in nature	(i), (ii)	8,000	—	—	—	—	—
Amount due from Chengdu Yiming Investment Management Co., Ltd. — non-trade in nature	(i), (ii)	3,079	—	340	—	—	—
Amount due to Wuhan Bai Xin Zheng Yuan Biotechnology Engineering Company Limited — trade in nature		—	—	—	—	—	(120)
Amount due from Wu Dong Wang, a relative of the Controlling Shareholder — non-trade in nature	(i), (ii)	3,000	—	—	—	—	—
Amounts due from/(to) other related parties		17,702	2,385	340	(405)	(2,029)	(232)
		<u>17,794</u>	<u>3,991</u>	<u>1,015</u>	<u>(8,916)</u>	<u>(2,029)</u>	<u>(442)</u>

Notes:

- (i) The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms.

- (ii) No provisions for bad or doubtful debts have been made in respect of these amounts due from related parties.
- (iii) The maximum outstanding balances due from related parties during the years ended 31 December 2012, 2013 and 2014 are as follows:

	Maximum balance outstanding during the year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due from the Controlling Shareholder			
— Mr. Chen Yenfei	—	1,359	675
Amount due from a director			
— Mr. Su Si	3,895	2,328	585
Amounts due from other related parties			
— Wuhan Wantong Investment Company Limited	97	546	546
— Wuhan Bai Xin Biotechnology Company Limited	2,125	2,125	—
— Wuhan Bai Xin Environmental Energy Technology Company Limited	8,000	8,000	—
— Chengdu Yiming Investment Management Co., Ltd.	4,359	3,079	340
— Wu Dong Wang	3,000	3,000	—
	<u> </u>	<u> </u>	<u> </u>

The Company

Amounts due from/(to) subsidiaries and the Controlling Shareholder

The amounts due from/(to) subsidiaries and the Controlling Shareholder are unsecured, interest-free and have no fixed terms of repayment.

c) Trading transactions

In addition to the related party transactions disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions during the Track Record Period:

	<i>Note</i>	Year ended 31 December		
		2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental expenses paid	(i)	1,335	1,098	263
Sales of pharmaceutical products	(ii)	343	—	—
Purchases of pharmaceutical products	(iii)	3,054	1,186	188
		<u> </u>	<u> </u>	<u> </u>

Notes:

- (i) It represented office and warehouse rental expenses paid to Chengdu Yiming in accordance with the terms of underlying contracts.

- (ii) It represented sales to the entities controlled by the Controlling Shareholder in accordance with normal commercial terms.
- (iii) It represented purchases from the entities controlled by the Controlling Shareholder in accordance with normal commercial terms.

29. INVESTMENTS IN SUBSIDIARIES

	As of 31 December		
	2012 RMB'000	2013 RMB'000	2014 RMB'000
Unlisted shares, at cost	324	324	324

The particulars of the Company's subsidiaries are set out in note 1(b) above.

30. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE TRACK RECORD PERIOD

Up to the date of issue of this Financial Information, the HKICPA has issued a number of amendments and new standards which are not yet effective for the Track Record Period and which have not been early adopted in this Financial Information. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, <i>Defined benefit plans: Employee contributions</i>	1 July 2014
<i>Annual improvements to HKFRSs 2010–2012 cycle</i>	1 July 2014
<i>Annual improvements to HKFRSs 2011–2013 cycle</i>	1 July 2014
Amendments to HKFRS 11, <i>Accounting for acquisitions of interests in joint operations</i>	1 January 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
Amendments to HKAS 27, <i>Equity method in separate financial statements</i>	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, <i>Investment entities: Applying the consolidation exception</i>	1 January 2016
<i>Annual improvements to HKFRSs 2012–2014 cycle</i>	1 January 2016
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

31. INFORMATION OF STATUTORY FINANCIAL STATEMENTS OF THE COMPANIES COMPRISING THE GROUP

The statutory financial statements of the companies, now comprising the Group, which were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC") or Hong Kong Financial Reporting Standards (the "HKFRSs") as appropriate, were audited during the Track Record Period by their respective statutory auditors as indicated below:

Name of company	Financial years	Statutory auditors
Toyot Pa Shun Medicine Factory Company Limited (東洋百信製藥廠有限公司)	Years ended 31 December 2012 and 2013	Ian See & Co.
Chengdu Toyot Pa Shun Pharmacy Co. Ltd (成都東洋百信製藥 有限公司) (see note (i) below)	Years ended 31 December 2012 and 2013	Sichuan Xinyong CPA Co., Ltd.
Chengdu Kexun Pharmacy Co. Ltd (成都科訊藥業有限公司) (see note (i) below)	Years ended 31 December 2012 and 2013	Sichuan Rong Xin Accounting Firm Co., Ltd
Chengdu Pa Shun Pharmacy Chain Store Co., Ltd (成都百信藥業連鎖 有限責任公司) (see note (i) below)	Years ended 31 December 2012 and 2013	Sichuan Rong Xin Accounting Firm Co., Ltd
Hebei Chun Sheng Tang Chain Store Co., Ltd (河北春生堂大藥房連鎖 有限公司) (see note (i) and (ii) below)	Years ended 31 December 2012	Hebei Fangzhou Certified Public Account's office Limited Company

Notes:

- (i) The English translation of the name is for reference only and the official name of this entity is in Chinese.
- (ii) On 20 February 2014, The State Administration for Industry and Commerce promulgated the “Administrative Regulations on Registering the Registered Capital of Enterprises”, which cancels the annual inspection for all types of enterprises including domestic entities, representative offices, branches and foreign invested entities since 1 March 2014. Accordingly, no audited financial statements have been prepared for the year ended 31 December 2013.

32. SUBSEQUENT EVENTS

The following significant event took place subsequent to 31 December 2014:

Capitalisation issue

Pursuant to written resolutions of the Company’s shareholders passed on 26 May 2015, conditional upon the crediting of the share premium account of the Company as a result of the issue of shares pursuant to the global offering set out in the paragraph headed “Written resolutions of all the Shareholders of our Company passed on May 26, 2015” under the section headed “Further Information about our Company” in Appendix IV to this Prospectus, the directors of the Company had authorised to allot and issue a total of 749,000,000 ordinary shares, by way of capitalisation of the sum of approximately HK\$749,000 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company.

33. IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

As of 31 December 2014, the directors consider the immediate controlling party of the Company to be Praise Treasure Limited, which is incorporated in the British Virgin Islands, and the ultimate controlling party of the Company to be Mr. Chen Yenfei.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2014.

Yours faithfully

Crowe Horwath (HK) CPA Limited

Certified Public Accountants

Hong Kong

Yau Hok Hung

Practising Certificate Number P04911

The information set out in this appendix does not form part of the accountants' report prepared by Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section headed "FINANCIAL INFORMATION" in this prospectus and the accountants' report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company was prepared in accordance with Rule 4.29 of the Listing Rules and is for illustration purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets attributable to equity shareholders of the Company following the Global Offering. The following unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to equity shareholders of the Company derived from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, assuming that the Global Offering was completed on December 31, 2014 and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of the Company does not form part of the Accountants' Report.

	Consolidated net tangible assets attributable to equity shareholders of our Company as of December 31, 2014 <i>RMB '000</i> <i>(Note 1)</i>	Estimated net proceeds from the Global Offering <i>RMB '000</i> <i>(Note 2 & 4)</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company <i>RMB '000</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company per Share <i>RMB</i> <i>(Note 3)</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company per Share <i>HK\$</i> <i>(Note 4)</i>
Based on an Offer Price of HK\$1.00 per Share.	152,900	176,166	329,066	0.33	0.41
Based on an Offer Price of HK\$1.40 per Share.	152,900	256,166	409,066	0.41	0.51

Notes:

- (1) The consolidated net tangible assets attributable to equity shareholders of the Company as of December 31, 2014 is based on consolidated net assets attributable to equity shareholders of our Company of RMB180,219,000 as of December 31, 2014 with an adjustment for intangible assets of RMB6,024,000, goodwill of RMB1,295,000 and prepayment for intangible asset of RMB20,000,000 as of December 31, 2014, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

- (2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the estimated Offer Prices of HK\$1.00 and HK\$1.40, respectively, being the lower end and higher end of the Offer Price range, after deduction of the underwriting fees and other related expenses payable by our Company without taking into account any Shares that may be issued upon exercise of Over-Allotment Option.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustment for the estimated net proceeds from the Global Offering payable to our Company as described in note (2) above and on the basis that a total of 1,000,000,000 Shares were in issue assuming that the Global Offering was completed on December 31, 2014 (including Shares in issue as of the date of this prospectus and those Shares to be issued pursuant to the Global Offering and the Capitalization Issue) without taking into account any Shares which may be offered for sale upon exercise of the Over-Allotment Option.
- (4) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted consolidated net tangible assets attributable to equity shareholders of our Company per Share are converted from or into Hong Kong dollars at an exchange rate of HK\$1 to RMB0.80. No representation is made that HK\$ amount have been, could have been or may be converted into RMB, or vice versa, at that rate.
- (5) No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2014.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Crowe Horwath (HK) CPA Limited, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose of inclusion in this prospectus.



國富浩華 (香港) 會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

香港銅鑼灣禮頓道77號禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong
電話 Main +852 2894 6888
傳真 Fax +852 2895 3752
www.crowehorwath.hk

9 June 2015

The Directors

Pa Shun Pharmaceutical International Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Pa Shun Pharmaceutical International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as of 31 December 2014 and related notes as set out on pages II-1 to II-2 of Appendix II to this prospectus dated 9 June 2015 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in pages II-1 to II-2 of Appendix II to this Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary Shares of the Company (the "Global Offering") on the Group's financial position as of 31 December 2014 as if the Global Offering had taken place as of 31 December 2014. As part of this process, information about the Group's financial position as of 31 December 2014 has been extracted by the Directors from the Group's historical financial statements included in the Accountants' Report as set out in Appendix I to this Prospectus.

DIRECTORS' RESPONSIBILITIES FOR THE PRO FORMA FINANCIAL INFORMATION

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements (“HKSAE”) 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as of 31 December 2014 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants’ judgement, having regard to the reporting accountants’ understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds" in this Prospectus.

OPINION

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group, and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully

Crowe Horwath (HK) CPA Limited

Certified Public Accountants

Hong Kong

Yau Hok Hung

Practising Certificate Number P04911

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANIES LAW**

SET OUT BELOW IS A SUMMARY OF CERTAIN PROVISIONS OF THE MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY AND OF CERTAIN ASPECTS OF CAYMAN COMPANIES LAW.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on May 3, 2011 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Law**”). The Memorandum of Association (the “**Memorandum**”) and the Articles of Association (the “**Articles**”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on May 26, 2015. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANIES LAW**

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANIES LAW**

from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates (as defined in the Articles) is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANIES LAW**

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the members may by ordinary resolution appoint another in his place at the meeting at which such Director is removed. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons

holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles (see paragraph 2(i) below for further details).

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing not less than ninety-five per cent (95%) of the total voting rights at the meeting of all the members.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANIES LAW**

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANIES LAW**

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANIES LAW**

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANIES LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANIES LAW**

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from May 20, 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on May 3, 2011. We have established a place of business at Flat 1907B, 19/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong and was registered in Hong Kong as an overseas company under Part XVI of the Companies Ordinance on September 17, 2014. Mr. Pang, Peter Chun Ming of Flat 31B, Block 1, Florient Rise, 38 Cherry Street, Kowloon, Hong Kong has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises the Memorandum and Articles of Association. A summary of certain relevant provisions of its constitution and certain relevant aspects of the Companies Law is set out in Appendix III of this prospectus.

2. Changes in share capital of our Company

As of the date of incorporation, the authorized share capital of our Company was HK\$380,000 divided into 380,000,000 shares of HK\$0.001 each.

At the time of incorporation, the issued share capital of our Company was HK\$0.001, with one Share of HK\$0.001 each and was held by Codan Trust Company (Cayman) Limited. On the same date, the said one Share was transferred to Praise Treasure for a consideration at par value.

Pursuant to a share transfer agreement dated December 30, 2011 entered into by Mr. Chen and Pashun BVI, Mr. Chen transferred 10% equity interest in Pashun HK to Pashun BVI in consideration of Pashun BVI procuring our Company to issue 857,087 Shares to Praise Treasure, a company 100% held by Mr. Chen. Upon completion of the above transfer, the issued share capital of our Company was changed to HK\$857.088, divided into 857,088 Shares of HK\$0.001 each, and wholly-owned by Praise Treasure.

Pursuant to the Series A Share Subscription Agreement dated December 31, 2011 entered into by Hong Kong Investments, our Company, Mr. Chen, Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, our Company issued and allotted 102,912 Series A Shares with par value of HK\$0.001 each to Hong Kong Investments.

Pursuant to a share transfer agreement dated December 31, 2011 entered into by Praise Treasure and Hong Kong Investments, Praise Treasure agreed to transfer 154,368 Shares in our Company to Hong Kong Investments. Such 154,368 Shares were reclassified as Series A Shares on February 27, 2012. Hong Kong Investments nominated Advance Apex to take up all the Series A Shares it agreed to acquire pursuant to the Series A Share Subscription Agreement and the above-mentioned share transfer agreement.

Pursuant to the Series B Share Subscription Agreement dated January 6, 2012 entered into by V-drug, our Company, Mr. Chen, Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, our Company issued and allotted 40,000 Series B Shares with par value of HK\$0.001 each to V-drug.

Pursuant to a share transfer agreement dated January 9, 2012 entered into by Praise Treasure and Jumbo Success, Praise Treasure transferred 50,000 ordinary Shares in our Company to Jumbo Success.

Pursuant to the written resolutions of the sole Shareholder on February 27, 2012, the authorized share capital was reclassified and redesignated into HK\$380,000 divided into 230,000,000 Shares, 100,000,000 Series A Shares and 50,000,000 Series B Shares and the issued share capital of the Company was reclassified and redesignated into 257,280 Series A Shares, 40,000 Series B Shares, and 702,720 Shares.

Pursuant to the Series B Deed of Amendment (2014) dated March 13, 2014 entered into, among others, V-drug, our Company, Mr. Chen, Praise Treasure and Advance Apex, Praise Treasure transferred 2,000 Shares to V-drug according to the Shareholders' Agreement.

Pursuant to the written resolutions of all Shareholders on May 26, 2015, the authorized share capital of the Company was increased from HK\$380,000 to HK\$2,000,000 by the creation of an additional 1,620,000,000 Shares (ranking *pari passu* in all respects with the then existing issued Shares) such that the authorized share capital of the Company became HK\$2,000,000 divided into 1,850,000,000 Shares, 100,000,000 Series A Shares and 50,000,000 Series B Shares.

Immediately following completion of the Global Offering and the Capitalization Issue and assuming that the Over-allotment Option is not exercised, the authorized share capital of our Company will be HK\$2,000,000 divided into 2,000,000,000 Shares, of which 1,000,000,000 Shares will be issued fully paid or credited as fully paid, and 1,000,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of all the Shareholders of our Company passed on May 26, 2015" in this Appendix, the Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since incorporation.

3. Written resolutions of all the Shareholders of our Company passed on May 26, 2015

Pursuant to the written resolutions of all Shareholders passed on May 26, 2015, conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, on the Main Board, the Shares in issue and to be issued as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

- (a) the 257,280 Series A Shares held by Advance Apex, being all the Series A Shares in issue, be converted into 257,280 Shares (which shall rank *pari passu* in all respects with the then existing issued Shares) (the "**Series A Conversion**") at a conversion rate of 1:1 pursuant to the automatic conversion mechanism as set out in the then existing amended and restated memorandum of association and amended and restated articles of association of the Company (the "**Existing M&A**"). The 40,000 Series B Shares held by V-drug, being all the Series B

Shares in issue, be converted into 40,000 Shares (which shall rank *pari passu* in all respects with the then existing issued Shares) (the “Series B Conversion”, together with the Series A Conversion, the “Conversion”) at a conversion rate of 1:1 pursuant to the automatic conversion mechanism as set out in the Existing M&A. Following the Conversion, that part of the authorized share capital of the Company comprising 100,000,000 Series A Shares be re-designated and re-classified into 100,000,000 Shares and the share class of Series A Shares shall cease to exist thereafter (the “Series A Re-designation”) and that part of the authorised share capital of the Company comprising 50,000,000 Series B Shares be re-designated and re-classified into 50,000,000 Shares and the share class of Series B Shares shall cease to exist thereafter (the “Series B Re-designation”, together with the Series A Re-designation, the “Re-designation”), such that following the Re-designation, the authorised share capital of the Company will be HK\$2,000,000 divided into 2,000,000,000 Shares, all ranking *pari passu* in all respects with the then existing issued Shares and the Directors be and are hereby authorized to effect the Conversion;

- (b) our Company approved and adopted the Memorandum of Association and the Articles of Association;
- (c) conditional on the share premium account of our Company being credited as a result of the Share Offer, the sum of HK\$749,000 be capitalized and be applied in paying up in full at par 749,000,000 Shares for allotment and issue to the Shareholders whose names were on the register of members of our Company as of the close of business on May 26, 2015 and the Shares to be allotted and issued pursuant to this resolution (the “Record Date”) shall rank *pari passu* in all respects with the existing issued Shares (For the avoidance of doubt, the Shares to be allotted and issued pursuant to the Capitalization Issue shall be ordinary Shares of HK\$0.001 each in the share capital of the Company (the “Capitalization Shares”) and Advance Apex and V-drug shall be entitled to the Capitalization Shares notwithstanding the fact that they are only holding Series A Shares and Series B Shares, respectively, on the Record Date and solely for purposes of calculating their entitlements to the Capitalization Shares (and without prejudice to their status for any other purposes), the Series A Shares and the Series B Shares held by Advance Apex and V-drug, respectively, on the Record Date shall be treated as if they have been converted into Shares on the basis of one (1) Series A Shares/one (1) Series B Shares for one (1) Shares);
- (d) the Global Offering and the Over-allotment Option were approved and the Directors were authorized to approve to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;
- (e) the rules of the Share Option Scheme were approved and adopted, and the Directors or any committee thereof established by the Board were authorized, at their sole discretion, to grant options to subscribe for Shares under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of options granted under the Share Option Scheme and to take such action as they consider necessary, expedient or desirable to implement the Share Option Scheme;
- (f) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares (otherwise than pursuant to, or in consequence of, the Global Offering, a rights issue or the

exercise of any subscription rights under the Share Option Scheme or any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for Shares under options and warrants or a special authority granted by the shareholders in general meeting) with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering; and
 - (ii) the aggregate nominal value of the share capital of our Company repurchased by our Company (if any);
- (g) a general unconditional mandate was given to the Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our Company's share capital in issue or to be issued immediately following the completion of the Global Offering and Capitalization Issue (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option);
- (h) the general unconditional mandate as mentioned in paragraph (f) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (g) above (up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering); and

Each of the general mandates referred to in paragraphs (f), (g) and (h) above will remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions;
- (ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (iii) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in a general meeting.

4. Reorganization

In order to rationalize our structure and prepare for the Listing, our Company has undertaken certain restructuring steps. Please see the paragraph headed "Corporate Reorganization" in the section headed "History and Corporate Structure" in this prospectus for details.

5. Changes in share capital of the subsidiaries of our Company**A. *Subsidiaries of our Company***

Our Company's subsidiaries are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus.

B. *Changes in share capital of the subsidiaries of our Company*

Save as disclosed in the section headed "Reorganization" in this Appendix and the section headed "History and Corporate Structure" in this prospectus, the following changes in share capitals and changes in shareholdings of certain subsidiaries of our Company took place during the two years immediately preceding the date of this prospectus:

Chengdu Keyi

- (a) On July 22, 2013, Chengdu Keyi was established by Chengdu Kexun with a registered capital of RMB2 million.

Baixintang

- (a) On December 26, 2013, Baixintang was acquired by Chengdu Pashun Chain Store.

Save as mentioned in the paragraph headed "Reorganization" in this Appendix and the section headed "History and Corporate Structure" and as described in this paragraph, there have been no changes in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of our own securities

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board to repurchase their securities on the Stock Exchange subject to certain restrictions. The most important restrictions are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions of our Company passed on May 26, 2015 by all the Shareholders of our Company, a general unconditional mandate was given to the Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our Company's share capital in issue or to be issued immediately following the completion of the Global Offering (excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to expire at the earliest of: (i) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions; (ii) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or (iii) the time when such mandate is varied or revoked by an ordinary resolution of the Shareholders in a general meeting whichever shall first occur; details of which have been described above in the paragraph headed "Written resolutions of all the Shareholders of our Company passed on May 26, 2015".

(ii) *Source of funds*

Any repurchase of Shares by our Company must be paid out of funds legally available for the purpose in accordance with our Company's Memorandum and Articles of Association, Listing Rules and the Companies Law. We may not repurchase our own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchase of Shares by our Company may be made out of profits of our Company, out of our Company's share premium account or out of proceeds of a fresh issue of Shares made for that purpose or, if so authorized by the Articles of Association of our Company and subject to the provisions of the Companies Law, out of capital.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by our Company must be fully-paid up.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interests of our Company and Shareholders for the Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and Shareholders.

(c) *Material adverse impact*

On the basis of our Company's current financial position as disclosed in this prospectus and taking into account our current working capital position, the Directors consider that, if the repurchase mandate is exercised in full, it might have a material adverse effect on our Company's working capital and/or gearing position as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our Company's working capital requirements or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Company.

(d) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Company has not made any repurchases of our own securities in the past six months.

No core connected person (as defined in the Listing Rules) has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

FURTHER INFORMATION ABOUT OUR COMPANY'S BUSINESS**1. Summary of the Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Company or our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) a share subscription agreement in respect of series A convertible redeemable preferred shares in the capital of our Company (the "Series A Share Subscription Agreement"), dated December 31, 2011 and entered into by Hong Kong Investments, our Company, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, pursuant to which Hong Kong Investments agreed to subscribe for 102,912 series A convertible redeemable preferred shares in the capital of our Company for a subscription amount of US\$8,000,000;
- (b) a shareholders' agreement relating to our Company (the "Shareholders' Agreement"), dated February 24, 2012 and entered into by our Company, Advance Apex, V-drug, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexu, Chengdu Pashun Chain Store and Jumbo Success, in relation to, among other things, the respective rights and obligations of shareholders of our Company;
- (c) a deed of amendment relating to the shareholders' agreement, dated March 13, 2014 and entered into by our Company, Advance Apex, V-drug, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun, Chengdu Pashun Chain Store and Jumbo Success, pursuant to which (1) Praise Treasure irrevocably and unconditionally agreed to transfer 2,000 ordinary Shares in the share capital of our Company to V-drug pursuant to the Shareholders' Agreement and (2) certain terms of the Shareholders' Agreement were amended;
- (d) a deed of amendment relating to the share subscription agreement, dated May 22, 2014 and entered into by our Company, Advance Apex, Hong Kong Investments, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, pursuant to which certain terms of the Series A Share Subscription Agreement were amended;
- (e) a second deed of amendment relating to the shareholders' agreement, dated February 12, 2015 and entered into by our Company, Advance Apex, V-drug, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun, Chengdu Pashun Chain Store and Jumbo Success, pursuant to which certain terms of the Shareholders' Agreement were amended;
- (f) a second deed of amendment relating to the share subscription agreement, dated February 12, 2015 and entered into by our Company, Advance Apex, Hong Kong Investments, Chen Yen Fei (陳燕飛), Praise Treasure, Pashun BVI, Pashun HK, Chengdu Pashun, Chengdu Kexun and Chengdu Pashun Chain Store, pursuant to which certain terms of the Series A Share Subscription Agreement were amended;

- (g) an equity transfer agreement dated November 1, 2013 entered into by Ms. Gao Jing (高靜) and Chengdu Pashun Chain Store, pursuant to which Ms. Gao Jing (高靜) agreed to transfer her entire interest in Baixintang, being 90% equity interest in Baixintang, to Chengdu Pashun Chain Store for a consideration of RMB9,000,000;
- (h) an equity transfer agreement dated November 1, 2013 entered into by Ms. Zhou Zhihong (周志紅) and Chengdu Pashun Chain Store, pursuant to which Ms. Zhou Zhihong (周志紅) agreed to transfer her entire interest in Baixintang, being 10% equity interest in Baixintang, to Chengdu Pashun Chain Store for a consideration of RMB1,000,000;
- (i) the Deed of Non-competition;
- (j) the Deed of Indemnity; and
- (k) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of our Group

Trademarks

As of the Latest Practicable Date, members of our Group have registered the following trademarks:

No	Registrant	Trademark	Registration Number	Place of Registration	Class	Registration Date	Expiry Date
1	Chengdu Pashun		1017727	PRC	30	May 28, 1997	May 27, 2017
2	Chengdu Pashun		1080966	PRC	5	August 21, 1997	August 20, 2017
3	Chengdu Pashun		1170259	PRC	5	April 28, 1998	April 27, 2018
4	Chengdu Pashun		1312723	PRC	5	September 14, 1999	September 13, 2019
5	Chengdu Pashun		1312724	PRC	5	September 14, 1999	September 13, 2019
6	Chengdu Pashun		1720553	PRC	5	February 28, 2002	February 27, 2022
7	Chengdu Pashun		1728559	PRC	5	March 14, 2002	March 13, 2022
8	Chengdu Pashun		1740424	PRC	5	April 7, 2002	April 6, 2022
9	Chengdu Pashun		1740431	PRC	5	April 7, 2002	April 6, 2022
10	Chengdu Pashun		1906038	PRC	5	September 21, 2002	September 20, 2022
11	Chengdu Pashun		312547	PRC	5	April 20, 1988	April 19, 2018
12	Chengdu Pashun		3257639	PRC	5	January 7, 2004	January 6, 2024
13	Chengdu Pashun		765692	PRC	5	September 14, 2005	September 13, 2015
14	Chengdu Pashun		7896756	PRC	5	January 28, 2012	January 27, 2022

No	Registrant	Trademark	Registration Number	Place of Registration	Class	Registration Date	Expiry Date
15	Chengdu Pashun		4682576	PRC	35	January 14, 2010	January 13, 2020
16	Chengdu Pashun		3212239	PRC	35	March 21, 2004	March 20, 2024
17	Chengdu Pashun		10207546	PRC	35	February 7, 2013	February 6, 2023
18	Chengdu Pashun		10219222	PRC	35	January 21, 2013	January 20, 2023
19.	Chengdu Pashun Chain Store ⁽¹⁾		1099555	PRC	5	September 14, 1997	September 13, 2017
20.	Chengdu Pashun Chain Store ⁽¹⁾		1536509	PRC	5	March 14, 2001	March 13, 2021
21.	Chengdu Pashun Chain Store ⁽¹⁾		5404148	PRC	5	October 14, 2009	October 13, 2019
22.	Chengdu Pashun Chain Store ⁽¹⁾		3566503	PRC	5	August 14, 2005	August 13, 2015
23.	Chengdu Pashun Chain Store ⁽¹⁾		4683001	PRC	5	December 21, 2008	December 20, 2018
24.	Chengdu Pashun Chain Store ⁽¹⁾		4934205	PRC	5	June 28, 2009	June 27, 2019
25	Chengdu Pashun Chain Store ⁽²⁾		3566508	PRC	5	June 7, 2005	June 6, 2015
26	Chengdu Pashun		3179763	PRC	5	February 21, 2004	February 20, 2024
27	Our Company		303008600	Hong Kong	3, 5, 10, 35, 39, 41, 42, 44	May26, 2014	May25, 2024

Notes:

- (1) Chengdu Pashun Chain Store entered into trademark transfer agreements with Wuhan Baixin Holdings Group Limited* (武汉百信控股集團有限公司), pursuant to which Wuhan Baixin Holdings Group Limited* (武汉百信控股集團有限公司) agreed to transfer the trademarks numbered 19-24 above to Chengdu Pashun Chain Store. These transfers are still pending governmental approval as at the Latest Practicable Date, and it is currently expected that these transfers will be completed by the end of 2015.

- (2) Wuhan Baixin Holdings Group Limited* (武漢百信控股集團有限公司) agreed to license the trademark numbered 25 above to Chengdu Pashun Chain Store. Such license is still pending governmental approval as at the Latest Practicable Date, and it is currently expected that such approval will be obtained by the end of 2015.
- (3) An Independent Third Party exclusively licensed the use of the trademark numbered 26 above to Chengdu Pashun for a term starting from February 21, 2014 to February 20, 2019 at nil consideration.

As of the Latest Practicable Date, there is no trademark under application.

Domain Names

As of the Latest Practicable Date, members of our Group have registered the following domain names:

Registrant	Domain Name	Date of Registration	Expiry Date
Chengdu Kexun	<u>www.pashun.com.cn</u>	May 25, 2012	May 25, 2017
Chengdu Kexun	<u>www.baixinshop.com</u>	May 25, 2012	May 25, 2017
Chengdu Pashun Chain Store	<u>www.028baixin.com</u>	November 18, 2012	November 19, 2018

Patents

As of the Latest Practicable Date, members of our Group do not register any or are not in the process of applying for patents in the PRC.

3. Further Information About Our Group's PRC Subsidiaries

(a) *Chengdu Pashun*

Nature of the company	Wholly foreign-owned enterprise
Term of business operation	From February 23, 1995 to February 22, 2025
Registered capital	RMB74 million
Attributable interest of our Company	100%
Scope of business	manufacture and process creams (including hormone-containing matters) (for external use), liniment (for external use), medicinal oil (for external use) and hard capsules (penicillin) prohibited or restricted matters excluded); develop new products; sale of own products
Legal representative	Mr. Chen Yenfei (陳燕飛)

(b) *Chengdu Kexun*

Nature of the company	Domestic enterprise
Term of business operation	From May 15, 2001 to April 28, 2021
Registered capital	RMB50 million
Attributable interest of our Company	100%
Scope of business	sale of the second category of psychotropic medicine, biochemical medicine, Chinese herbal medicine, Chinese herbal pieces, biological products (preventive biological products excluded), chemicals raw materials, antibiotics raw materials, Chinese patent medicine, chemical medicine preparation, antibiotics (should operate with licenses; to expire on 13 July, 2019); sale of Class III medical devices (should operate with licenses; to expire on July 30, 2017), sale of pre-packaged food, dairy products (including infant formula) (should operate with license), sale of healthcare supplies, sterilization products, chemical products (dangerous goods excluded), medical testing equipment, electronic equipments, daily provisions and cosmetics; import and export of goods; conference service and exhibition service (business prohibited or restricted by the laws, regulations or the decisions of the State Council excluded; for those requiring qualification certificate, shall operate with the relevant qualification certificate)
Legal representative	Mr. Su Si (蘇肆)

(c) *Chengdu Pashun Chain Store*

Nature of the company	Domestic enterprise
Term of business operation	From May 27, 2002 to May 26, 2032
Registered capital	RMB5 million
Attributable interest of our Company	100%
Scope of business	retail of Chinese herbal medicine, Chinese patent medicine, chemical medicine preparation, antibiotics, biochemical medicine, Chinese herbal pieces, biological products (preventive biological products excluded), pre-packaged food and dairy products (including infant formula), the sale of daily provisions, cosmetics, healthcare supplies, sterilization products and medical equipments
Legal representative	Mr. Su Si (蘇肆)

(d) *Chunshengtang*

Nature of the company	Domestic enterprise
Term of business operation	From February 22, 2010 to February 21, 2030
Registered capital	RMB5 million
Attributable interest of our Company	80%

Scope of business	retail of Chinese patent medicine, Chinese herbal pieces, chemical medicine preparation, antibiotics, biochemical medicine, biological products (to expire on December 31, 2016); retail of health food, daily provisions and cosmetics (shall not engage in business prohibited or restricted by the laws, regulations or the decisions of the State Council; those requiring administrative examination and approval shall be examined and approved by the relevant administration)
Legal representative	Mr. Su Si(蘇肆)
(e) <i>Baixintang</i>	
Nature of the company	Domestic enterprise
Term of business operation	From March 24, 2011 to March 23, 2021
Registered capital	RMB10 million
Attributable interest of our Company	100%
Scope of business	retail of cosmetics, daily provisions, medical equipments in the first category, Chinese patent medicine, Chinese herbal pieces, biochemical medicine, chemical medicine preparation, antibiotics, biological products (excluding vaccine), pre-packaged food and unpacked food, dairy products (including infant formula), retail of healthcare food (only for branches to operate). (the operation period of the business shall be consistent with the period verified by the licences) (those requiring administrative examination and approval shall be examined and approved by the relevant administration)
Legal representative	Mr. Su Si (蘇肆)

(f) *Chengdu Keyi*

Nature of the company	Domestic enterprise
Term of business operation	From July 22, 2013 to July 21, 2043
Registered capital	RMB2 million
Attributable interest of our Company	100%
Scope of business	development, consulting, communication, transfer and promotion service of bioengineering technology
Legal representative	Mr. Su Si (蘇肆)

4. Further Information About Our Directors**a. Directors' service contracts and letters of appointment**

Each of our executive Directors, namely, Mr. Chen, Mr. Su Si (蘇肆), Mr. Zhou Jian (周建) and Mr. Shen Shun (沈順) has entered into a service contract with our Company on May 26, 2015 for an initial term of 3 years commencing from the Listing Date, which will continue thereafter until terminated by not less than one month notice in writing served by either party on the other.

Each of our non-executive Directors, namely, Mr. Li Ho Tan and Mr. Masahiro Honna, and each of our independent non-executive Directors, namely, Mr. Liu Liangzhong (劉良忠), Mr. Wong Tak Shing (黃德盛) and Mr. Min Feng (閔鋒) has entered into a letter of appointment with our Company on May 26, 2015 for which will continue thereafter until terminated by not less than one month notice in writing served by either party on the other, an initial term of 3 years commencing from the Listing Date.

Each of the Directors is entitled to the respective basic salary set out below (subject to an annual increment after consultation with remuneration committee at the discretion of the Directors).

Name	Annual Basic Salary
Mr. Chen	RMB190,000
Mr. Su Si (蘇肆)	RMB170,000
Mr. Zhou Jian (周建)	RMB170,000
Mr. Shen Shun (沈順)	RMB170,000
Mr. Li Ho Tan	RMB50,000
Mr. Masahiro Honna	RMB50,000
Mr. Liu Liangzhong(劉良忠)	RMB100,000
Mr. Wong Tak Shing (黃德盛)	HK\$180,000
Mr. Min Feng (閔鋒)	RMB100,000

All reasonable travelling and travel-related expenses, entertainment expenses and other out-of-pocket expenses reasonably incurred by the executive Directors in the process of discharging their duties on behalf of our Group will be borne by our Company.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

b. *Directors' remuneration during the Track Record Period*

Our Company's policies concerning remuneration of executive Directors are (i) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to our Company; and (ii) non-cash benefits may be provided to the Directors under their remuneration package.

For the three years ended December 31, 2014, the aggregate of the remuneration paid and benefits in kind granted to the Directors by our Group was RMB620,000, RMB696,000 and RMB553,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable for the three years ended December 31, 2014 by our Company to the Directors.

Under the arrangements currently in force, our Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, the Directors (excluding discretionary bonus) by our Company for the year ended December 31, 2015 will be approximately RMB0.9 million.

DISCLOSURE OF INTERESTS

1. Disclosure of Interests

*(a) Interests and short positions of the Directors in the share capital of our Company and our associated corporations following the Global Offering and the Capitalization Issue**(i) Interest in our Company*

Immediately following completion of the Global Offering and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the share options to be granted under Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of the Directors and the chief executive in the Shares, underlying Shares and debentures of our Company and our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the Shares, underlying shares and debentures of our Company and our associated corporations:

Long positions in our Company

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company/ associated corporations
Mr. Chen ⁽¹⁾	Interest in a controlled corporation	488,040,000	48.80%
Mr. Li Ho Tan ⁽²⁾	Interest in controlled corporations	230,460,000	23.05%

Notes:

- (1) Mr. Chen is interested in the entire issued share capital of Praise Treasure and is therefore deemed to be interested in 488,040,000 Shares held by Praise Treasure in our Company.
- (2) Mr. Li Ho Tan is interested in 47% of the issued share capital of Advance Apex and the entire issued share capital of Jumbo Success and is therefore deemed to be interested in 192,960,000 Shares and 37,500,000 Shares which Advance Apex and Jumbo Success will hold, respectively, upon Listing.

*(ii) Interest in associated corporation**Long position**Chunshengtang*

Name of Director	Capacity/Nature of interest	Amount of registered capital interested	Approximate percentage of shareholding
Mr. Su Si (蘇肆)	Beneficial owner	RMB900,000	18%

(b) Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO

Immediately following completion of the Global Offering and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the share options to be granted under Share Option Scheme or the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in the Shares or underlying shares of our Company which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

(i) Interests and short positions in the Shares and underlying shares of our Company:*Long positions in our Company*

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
Mr. Chen ⁽¹⁾	Interest in a controlled corporation	488,040,000	48.80%
Praise Treasure ⁽¹⁾	Beneficial Interest	488,040,000	48.80%
Mr. Li Ho Tan ⁽²⁾	Interest in controlled corporations	230,460,000	23.05%
Advance Apex ⁽²⁾⁽³⁾	Beneficial Interest	192,960,000	19.30%
Mr. Cheung, Chi Mang ⁽³⁾	Interest in a controlled corporation	192,960,000	19.30%

Notes:

- (1) Mr. Chen is interested in the entire issued share capital of Praise Treasure and is therefore deemed to be interested in 488,040,000 Shares held by Praise Treasure in our Company.
- (2) Mr. Li Ho Tan is interested in 47% of the issued share capital of Advance Apex and the entire issued share capital of Jumbo Success and is therefore deemed to be interested in 192,960,000 Shares and 37,500,000 Shares which Advance Apex and Jumbo Success, respectively will hold upon Listing.
- (3) Mr. Cheung, Chi Mang is interested in 50% of the issued share capital of Advance Apex and is therefore deemed to be interested in 192,960,000 Shares which Advance Apex will hold upon Listing.

(ii) Interest in associated corporation*Long position**Chunshengtang*

Name of Director	Capacity/Nature of interest	Amount of registered capital interested	Approximate percentage of shareholding
Mr. Su Si (蘇肆)	Beneficial owner	RMB900,000	18%

2. Disclaimers

Save as disclosed in this prospectus:

- (a) the Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately after completion of the Global Offering (taking no account of the Over-allotment Option or any Shares which may be issued upon exercise of share options to be granted under the Share Option Scheme and the Capitalization Issue), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group;
- (b) none of the Directors has any interest or short position in any of the Shares, underlying Shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code of Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;
- (c) none of the Directors nor any of the parties listed in the section headed “Other Information — Consents of experts” of this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of the Directors nor any of the parties listed in the section headed “Other Information — Consents of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our Company’s business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “Other Information — Consents of experts” of this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;
- (f) none of the Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of the Directors, owns more than 5% of our Company’s issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of all the Shareholders passed on May 26, 2015 (the “**Adoption Date**”). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimise their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) subject to (b) and (c) below, the approval of all the shareholders of our Company for the adoption of the Share Option Scheme;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 100,000,000 Shares to be allotted and issued pursuant to the exercise of the Options (as mentioned in the following paragraph) in accordance with the terms and conditions of the Share Option Scheme; and
- (c) the commencement of dealing of the Shares on the Main Board of the Stock Exchange on the Listing Date.

3. Who may join

The Board may, at its absolute discretion, offer options (“**Options**”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“**Executive**”), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (“**Employee**”);
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;

- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

(the persons referred above are the “**Eligible Persons**”)

4. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10 per cent of the Shares in issue as of the Listing Date, being 100,000,000 Shares, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the “**Scheme Mandate Limit**”) provided that:

- (a) our Company may at any time as the Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10 per cent of the Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules.
- (b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules.
- (c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Company’s issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

5. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12 month period exceeds 1% of our Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent of the Shares in issue, such further grant shall be separately approved by the shareholders of our Company in general meeting with such Eligible Person and his associates abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Company's shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

6. Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

7. Granting Options to Connected Persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associate(s) is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Stock Exchange,) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by shareholders of our Company (voting by way of a poll). Our Company shall send a circular to Shareholders containing the information required under the

Listing Rules. The grantee, his associates and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favour at such general meeting.

Approval from the shareholders of our Company is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates.

8. Offer period and number accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the Offer Date (the “Acceptant Date”). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

9. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing two months immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

10. Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of the Shares shall vest provided that

such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which needs to be achieved by the grantee before the Option can be exercised.

11. Amount payable for Options

The amount payable on acceptance of an Option is HK\$1.00.

12. Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

13. Exercise of Option

- (i) An Option shall be exercised in whole or in part (but if in part only, in respect of a Board Lot or any integral multiple thereof) within the Option Period in the manner as set out in this Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 28 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the Grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.
- (ii) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.
- (iii) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorized share capital of our Company.

- (iv) Subject as hereinafter provided:
- (a) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the Grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;
 - (b) in the event that the grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;
 - (c) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of shareholders of our Company (in the case of a scheme of arrangement), the Grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
 - (d) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the Grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
 - (i) the Option Period (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our Directors to each Grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);

- (ii) the period of two months from the date of such notice; or
 - (iii) the date on which such compromise or arrangement is sanctioned by the court,
- exercise in whole or in part his Option;
- (e) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

14. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the articles of association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the Grantee (or any other person) as the holder thereof.

15. Life of Share Option Scheme

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

16. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of Option;
- (c) subject to the period mentioned in paragraph headed “Exercise of Option” in this section, the date of the commencement of the winding-up of our Company;
- (d) there is an unsatisfied judgment, order or award outstanding against the grantee or our Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts; or
- (e) a bankruptcy order has been made against any director or shareholder of the Grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

17. Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or
- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or
- (c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalization issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall be made on the basis that the aggregate Subscription Price payable by the Grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;
- (b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

- (c) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including the supplemental guidance attached to the letter from the Stock Exchange dated September 5, 2005 to all issuers relating to Share Option Schemes); and
- (d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

18. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the Grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):

- (a) the Grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the Grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the Grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as of the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

19. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

20. Transferability

The Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or attempt so to do (save that the Grantee may nominate a nominee in whose name the Shares issued pursuant to the Scheme may be registered), except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such Grantee.

21. Amendment

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the shareholders of our Company in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of Grantee; and (iii) any alteration to the aforesaid termination provisions.

OTHER INFORMATION

1. The deed of indemnity

Our Controlling Shareholders have, under the Deed of Indemnity referred to in paragraph (j) of the sub-section headed “Summary of the material contracts” in this Appendix, given joint and several indemnities to our Company for itself and as trustee for its subsidiaries in connection with, among other things, (a) any taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or alleged to have, or which should have been earned or accrued or received on or before the Listing Date; (b) any taxation claim which might be payable by any member of our Group under or by reason of any transfer of any property to any member of our Group or to any other person, entity or company made or deemed to have been made on or before the Listing Date; and (c) all damages, losses and liabilities arising from or in connection with any property claim and/or any other liability claim to the extent that the events leading to such damages, losses and liabilities occurred prior to the Listing Date and any such damages, losses and liabilities are not paid by the insurer under any relevant insurance policy (if any).

Our Controlling Shareholders will however, not be liable under the Deed of Indemnity for taxation claim or liability or Other Claim (as defined below) to the extent that:

- (a) provision or allowance has been made for such taxation and Other Claim in the audited accounts (“**Account**”) of any member of our Group for the three years ended December 31, 2014;
- (b) to any taxation claim or liability falling on any of the members of our Group in respect of their current accounting periods or any accounting period commencing on or after December 31, 2014 unless such liability or taxation claim or liability would not have arisen but for any act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:
 - (1) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after December 31, 2014; or

- (2) carried out, made or entered into pursuant to a legally binding commitment created on or before December 31, 2014; or
 - (3) consisting of any of the members of our Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or
- (c) to the extent of any provision or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce our Controlling Shareholders' liability in respect of taxation claim or liability shall not be available in respect of any such liability arising thereafter;
- (d) the indemnity for taxation claim or liability does not cover any taxation claim or liability to the extent that the imposition of such taxation claim or liability arises or is incurred as a result of a retrospective change in law or practice coming into force after the Listing Date or to the extent the taxation claim or liability arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect.

Our Controlling Shareholders have also undertaken to indemnify all times keep them and each of them fully indemnified on demand against any penalties or fines, damages, losses or liabilities arising from any social insurance and housing fund not paid in full and any defects on properties on or before the Listing Date, as set out in the paragraphs headed "Business — Legal Compliance and Proceedings — Non-compliance regarding the PRC employee social insurance contribution", "Business — Non-compliance regarding the PRC employee housing fund contribution" and "Business — Properties — properties with defective titles in the PRC" ("**Other Claims**") in this prospectus.

2. Litigation

As of the Latest Practicable Date, neither our Company nor any of our subsidiaries is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition.

3. Preliminary Expenses

Our Company's estimated preliminary expenses are approximately US\$8,000 and has been paid by our Company.

4. Promoter

There are no promoters of our Company.

5. Sole Sponsor

The Sole Sponsor made an application on our Company's behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, the grant of Shares that may be granted under the Share Option Scheme and the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

The Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

The aggregate Sponsor's fees payable by us in respect of the Sponsor's services for the Listing are HK\$6.3 million.

6. No Material Adverse Change

The Directors confirm that there has been no material adverse change in their financial or trading position or prospects since December 31, 2014 (being the date to which our Company's latest audited combined financial statements were made up).

7. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

8. Miscellaneous

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus,

- (a) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of our subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;
- (e) no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any Shares in or debentures of our Company;

- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (g) our Company has no outstanding convertible debt securities; and
- (h) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
China Everbright Capital Limited	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities) regulated activities under the SFO and type 6 (advising on corporate finance) regulated activities under the SFO
Crowe Horwath (HK) CPA Limited	Certified public accountants
Shu Jin Law Firm	PRC legal advisors to our Company
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Savills Valuation and Professional Services Limited	Professional valuer

10. Consents of experts

Each of China Everbright Capital Limited, Crowe Horwath (HK) CPA Limited, Shu Jin Law Firm, Conyers Dill & Pearman, Savills Valuation and Professional Services Limited has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

Pursuant to Rule 11.14 of the Listing Rules and section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV to this prospectus, and copies of the material contracts referred to in the paragraph headed “Summary of the Material Contracts” in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date that is 14 days from the date of this prospectus:

- (i) the Memorandum and the Articles of Association of our Company;
- (ii) the accountants’ report prepared by Crowe Horwath (HK) CPA Limited, the text of which is set out in Appendix I to this prospectus;
- (iii) the audited consolidated financial statements of the companies now comprising our Group for each of the three years ended December 31, 2014;
- (iv) the letter from Crowe Horwath (HK) CPA Limited on unaudited pro forma financial information, the texts of which is set out in Appendix II to this prospectus;
- (v) the material contracts referred to in the paragraph headed “Summary of the Material Contracts” of Appendix IV to this prospectus;
- (vi) the service contracts and letters of appointment with each of the Directors, referred to in the paragraph headed “Directors’ service contracts and letters of appointment” of Appendix IV to this prospectus;
- (vii) the written consents referred to in the paragraph headed “Consents of experts” of Appendix IV to this prospectus;
- (viii) the PRC legal opinions prepared by Shu Jin Law Firm, our legal adviser as to PRC law, in respect of certain aspects of our Group and our property interests;
- (ix) the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of Companies Law referred to in Appendix III to this prospectus;
- (x) the Companies Law; and
- (xi) the rules of the Share Option Scheme.



Pa Shun Pharmaceutical International Holdings Limited
百信藥業國際控股有限公司