



PuraPharm Corporation Limited
培力控股有限公司

incorporated in the Cayman Islands with limited liability

Stock code: 1498

GLOBAL OFFERING



Sole Sponsor, Sole Global Coordinator and Sole Bookrunner



Joint Lead Managers

IMPORTANT

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



PuraPharm

PuraPharm Corporation Limited

培力控股有限公司

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	71,130,000 Shares (comprising 56,250,000 new Shares and 14,880,000 Sale Shares) (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Public Offer Shares	:	7,113,000 Shares (subject to adjustment)
Number of International Offer Shares	:	64,017,000 Shares (comprising 49,137,000 new Shares and 14,880,000 Sale Shares) (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$6.19 per Offer Share (payable in full on application, plus a brokerage of 1.0%, an SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005% and subject to refund) and expected to be not less than HK\$5.16 per Offer Share
Nominal value	:	US\$0.10 per Share
Stock code	:	1498

Sole Sponsor, Sole Global Coordinator and Sole Bookrunner



Joint Lead Managers



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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix V to this prospectus, has been registered by the registrar of companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission 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.

Our Company is incorporated in the Cayman Islands and a substantial part of our businesses is located in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the Cayman Islands, the PRC and Hong Kong and that there are different risk factors relating to the investment in our Company. Potential investors should also be aware that the regulatory frameworks in the Cayman Islands and the PRC are different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the sections headed "Risk Factors" and "Regulations."

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, 30 June 2015 and, in any event, not later than Friday, 3 July 2015.

The Offer Price will not be more than HK\$6.19 and is currently expected to be not less than HK\$5.16. Investors applying for Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK\$6.19 for each Share together with a brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. The Sole Global Coordinator (on behalf of the Underwriters), with the consent of our Company (for ourselves and on behalf of the Selling Shareholders), may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or of the indicative offer price range will be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.purapharm.com, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between our Company (for ourselves and on behalf of the Selling Shareholders) and the Sole Global Coordinator (on behalf of the Underwriters) on or before Friday, 3 July 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 and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Pursuant to the termination 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, in the sole discretion of the Sole Global Coordinator, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in our Shares first commence on The Stock Exchange of Hong Kong Limited (such first dealing date is currently expected to be on Wednesday, 8 July 2015). Further details of the terms of the termination provisions are set out in the paragraph headed "Grounds for Termination" under 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 laws of the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. The Offer Shares may only be offered, sold or delivered outside the United States in offshore transactions in reliance on Regulation S under U.S. Securities Act.

25 June 2015

EXPECTED TIMETABLE

Our Company will issue an announcement in Hong Kong to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.purapharm.com if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to complete electronic applications under the White Form eIPO service through the designated website www.eipo.com.hk ⁽²⁾	11:30 a.m. on Tuesday, 30 June 2015
Application lists open ⁽³⁾	11:45 a.m. on Tuesday, 30 June 2015
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Tuesday, 30 June 2015
Latest time for giving electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Tuesday, 30 June 2015
Latest time to complete payment of White Form eIPO applications effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Tuesday, 30 June 2015
Application lists close ⁽³⁾	12:00 noon on Tuesday, 30 June 2015
Expected Price Determination Date ⁽⁵⁾	Tuesday, 30 June 2015
Announcement of:	Tuesday, 7 July 2015
(i) the Offer Price;	
(ii) the level of indication of interest in the International Offering;	
(iii) the level of application in respect of the Hong Kong Public Offering; and	
(iv) the basis of allotment of the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) to be published on our Company's website at www.purapharm.com and the Stock Exchange's website at www.hkexnews.hk on or before	

EXPECTED TIMETABLE

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the subsection entitled "How to Apply for the Hong Kong Public Offer Shares — 11. Publication of Results" in this prospectus from Tuesday, 7 July 2015

Results of allocations in the Hong Kong Public Offering will be available at www.iporeresults.com.hk with a "search by ID" function from Tuesday, 7 July 2015

Despatch of Share certificates in respect of wholly or partially successful applications on or before⁽⁶⁾ Tuesday, 7 July 2015

Despatch of refund cheques or White Form e-Refund payment instructions in respect of wholly or partially unsuccessful applications on or before^{(7) (8)} Tuesday, 7 July 2015

Dealings in the Shares on the Stock Exchange to commence on Wednesday, 8 July 2015

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- (1) All dates and times refer to Hong Kong local dates and times, except as otherwise stated. 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) You will not be permitted to submit your application through the **White Form eIPO** service through the designated website, www.eipo.com.hk, after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
 - (3) If there is a "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 Tuesday, 30 June 2015, the application lists will not open and close on that day. Further information is set out in the paragraph headed "10. Effect of Bad Weather on the Opening of the Application Lists" under the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus. If the application lists do not open and close on Tuesday, 30 June 2015, the dates mentioned in this section may be affected. A press announcement will be made by our Company in such event.
 - (4) Applicants who apply for Hong Kong Public Offering by giving **electronic application instructions** to HKSCC should refer to the paragraph headed "6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" under the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus.
 - (5) The Price Determination Date is expected to be on or around Tuesday, 30 June 2015 and, in any event, no later than 12:00 noon Friday, 3 July 2015. If, for any reason, the Offer Price is not agreed on or before Friday, 3 July 2015, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.
 - (6) Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Tuesday, 7 July 2015 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects, and (ii) the Underwriting Agreements have not been terminated in accordance with their terms. If the Global Offering does not become unconditional or the Underwriting Agreements are terminated in accordance with their terms, our Company will make an announcement as soon as possible. Investors who trade the Hong Kong Public Offer Shares on the basis of publicly available allocation details before the receipt of their Share certificates or before the Share certificate becoming valid certificates of title do so entirely at their own risk.

EXPECTED TIMETABLE

- (7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more and have provided all required information may collect refund cheques (if applicable) and Share certificates (if applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 7 July 2015, Identification and (where applicable) authorisation documents acceptable to the Hong Kong Share Registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more may collect their refund cheques (if applicable) in person but may not collect in person their Share certificates which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied through the **White Form eIPO** service by paying the application monies through a single bank account may have e-Refund payment instructions (if any) despatched to their application payment bank account on Tuesday, 7 July 2015. Applicants who have applied through the **White Form eIPO** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions through the **White Form eIPO** service, on or before Tuesday, 7 July 2015, by ordinary post and at their own risk.

Uncollected Share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the subsection headed "How to Apply for Hong Kong Public Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

- (8) Refund cheques will be issued (if applicable) and e-Refund payment instruction will be despatched (where applicable) in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price per Hong Kong Public Offer Share payable on application.

For further details in relation to the Hong Kong Public Offering, see the sections headed "How to Apply for Hong Kong Public Offer Shares" and "Structure of the Global Offering" in this prospectus.

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This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Public Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any security 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. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. Information contained in our website at www.purapharm.com does not form part of this prospectus.

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

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus (including the appendices hereto, which constitute an integral part of this prospectus) before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read this section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading Hong Kong-based Chinese medicine company engaged in the research and development, production, marketing and sale of CCMG products which we market under our brand “Nong’s® (農本方)®”. We are the largest supplier of CCMG products in Hong Kong with a market share of 70% in terms of prescription revenue in 2014, while the Hong Kong CCMG product market constitutes approximately 11.1% of the Hong Kong traditional Chinese herbal medicine market in 2014, according to the Euromonitor Report. We also sell a broad range of general Chinese healthcare products, examples being PuraGold® (金靈芝)® and Oncozac® (安固生)®, which are essentially Chinese herbal supplements, on an OTC basis, targeted at end-consumers.

We are currently the sole supplier of CCMG products to the Hong Kong Hospital Authority⁽¹⁾, who has been our CCMG product customer since 2004. Our leading market position is further supported by the following international awards and recognitions:

- We are one of only five CCMG product manufacturers and the only non-PRC company licensed by the CFDA to manufacture and sell CCMG products in China;
- We are the only Chinese medicine manufacturer with CCMG products verified and recognised by the USP; and
- We are the only CFDA-licensed CCMG product manufacturer with a testing laboratory which is certified by CNAS in accordance with ISO 17025 standards and manufacturing facilities which are GMP-certified by the TGA.

Conventionally, the preparation and dispensation of TCM is time-consuming and inconvenient and requires the storage of raw herbs by the Chinese medicine practitioners and the boiling or decocting of raw herbs into a liquid form for patient consumption. We have modernised the manner in which TCM is manufactured, prepared and consumed by offering a broad range of CCMG products for easy consumption. Our CCMG products are traditional Chinese medicinal herbs extracted into granules by using modernised extraction and concentration technologies to replicate the traditional method of preparing medicinal decoction.

⁽¹⁾ We are approved by the Hong Kong Hospital Authority to sell CCMG products to its network of public hospitals and Chinese medicine clinics. We currently sell CCMG products to 18 public hospitals and Chinese medicine clinics under the administration of the Hong Kong Hospital Authority.

SUMMARY

Our “Nong’s® (農本方)®” range of CCMG products is complimented by our proprietary, integrated and comprehensive diagnostic clinic management and drug dispensing system, CMCMS, offering a total solution in Chinese medicine products and services, which we sell to qualified Chinese medicine practitioners in hospitals, clinics, universities, research institutes and other medical organisations for prescription purposes. Our CMCMS automates the entire service process of a TCM clinic from patient registration, organisation of patient medical records, medical diagnosis, prescription processing, inventory management to CCMG product dispensation. Following consultation with a patient, a TCM practitioner using our CMCMS is able to prescribe accurately ready-mixed dosages of different CCMG products in a single sealed packet for easy, safe and immediate consumption.

Our Group was founded by our Chairman and chief executive officer, Mr. Chan, in 1998 and we currently sell over 677 CCMG products under the Nong’s® (農本方)® brand, consisting of over 533 single formulae products and 144 combo formulae products, which are widely recognised and trusted in Hong Kong for its premium product quality, reliability and safety. According to the Euromonitor Report, the market share of CCMG products in the PRC traditional Chinese herbal medicine market was 4.0% in 2014, and we hold a 5% market share in terms of prescription value in the PRC CCMG product market.

Leveraging on our success and strong brand recognition in Hong Kong, and to capitalise on the significant growth opportunities in the CCMG product market in China, we commenced the sale of our CCMG products in China in 2006. We sell directly to our customers in China as well as to third party distributors who then resell our products to approved hospitals and medical institutions for clinical use. As at 31 December 2014, our extensive sales and distribution network covered over 300 hospitals and medical institutions in over 20 provinces, autonomous regions and municipalities in China. In December 2014, we entered into a distribution framework agreement with Sinopharm International, a Hong Kong subsidiary of Sinopharm, which is one of the largest distributors of pharmaceutical and healthcare products in China, whereby Sinopharm International agreed to distribute our CCMG products in China. Our strategic relationship with Sinopharm will allow us to leverage on its strong and nationwide pharmaceutical distribution network, well-established brand name and full range of logistics services to extend our product distribution reach in China.

We are a pioneer in the modernisation of Chinese medicine and our strong research and development capability has been critical to the sustainable development of our business and future expansion. We are the only CFDA-licensed CCMG product manufacturer who has received USP verification of its CCMG products according to the U.S. Pharmacopeial Convention. We also currently collaborate with the USP in the standardisation of CCMG products. We are also committed to the establishment of quality industry standards for CCMG products through our co-operation with local and national governments, leading international universities, TCM industry associations and other CCMG product manufacturers licensed by the CFDA.

In particular, we have been selected by The Chinese University of Hong Kong to collaborate with them on a series of projects targeted at the material characterisation of over 500 raw Chinese medicinal extracts to enhance our production and extraction technologies. In 2002, in recognition of our research and development expertise, we were selected by the SATCM to undertake the CCMG combination formulation research project to review and advise on the use of CCMG combo formulae products in China. Currently, we are the only CFDA-licensed CCMG product manufacturer qualified to issue safety reports recognised by over 70 countries around the world through our in-house CNAS ISO 17025 laboratory, according to the CNAS.

SUMMARY

We market and distribute our products through both direct sales channels and third party distributors to hospitals, medical institutions, TCM clinics, specialised pharmaceutical and general retail chains and private TCM practitioners, who in turn prescribe our CCMG products to patients.

We have also established our own Chinese medicine clinics in Hong Kong under the Nong's® (農本方)® brand. As at the Latest Practicable Date, we had established 13 Nong's® (農本方)® Chinese medicine clinics mainly within shopping malls across Hong Kong. The Nong's® (農本方)® Chinese medicine clinics are operated by registered TCM practitioners who use our CMCMS to prescribe our CCMG products to patients.

Our solid revenue growth during the Track Record Period demonstrates our ability to capitalise on our leading market position in Hong Kong and places us in a strong position to take advantage of the significant business opportunities in China arising from the fast growing CCMG product and Chinese healthcare product markets. Our annual revenue grew from HK\$287.8 million in 2012 to HK\$342.3 million in 2013 and further to HK\$366.4 million in 2014, representing a CAGR of 12.8% during this period.

OUR PRODUCTS

We research, develop, manufacture and sell primarily two lines of products: (i) CCMG products under our Nong's® (農本方)® brand; and (ii) Chinese healthcare products primarily under our brands of PuraGold® (金靈芝)®, Oncozac® (安固生)®, Nong's® Formula (農本方®沖劑), Haveron® (烏髮濃)® and others.

Our CCMG products consist of single formulae products (單方) and combo formulae (複方) products. CCMG single formulae products are granules made from one ingredient only. CCMG combo formulae products are granules made from a combination of different ingredients in accordance with formulae set forth in the Chinese Pharmacopoeia (《中國藥典》) and other relevant authoritative literature of Chinese medicine. Our CMCMS automatically manages the entire service process in relation to prescription and dispensation of CCMG products. We recommend our CMCMS to hospitals, Chinese medicine clinics, medical institutions and private Chinese medicine practitioners who prescribe our CCMG products to patients.

Our Chinese healthcare products consist of general health maintenance products and functional products. General health maintenance products are used by consumers primarily for maintaining overall health and general well-being. Functional products address a consumer's specific health condition or problem, or illnesses, which are not serious in nature.

Please refer to the subsection headed "Business — Our Products" on page 150 of this prospectus for further details on our CCMG products and CMCMS, as well as Chinese healthcare products.

OUR SALES AND DISTRIBUTION NETWORK

We adopt different sales and distribution models in Hong Kong and the PRC for our CCMG products and Chinese healthcare products as set forth below:

Hong Kong

- *CCMG products.* We sell our CCMG products directly to hospitals, Chinese medicine clinics, non-profit organisations, pharmacy chain stores and private Chinese medicine practitioners, all of whom then prescribe and sell our CCMG products to patients. We have

SUMMARY

also established our Nong's® (農本方)® Chinese medicine clinics and entered into relevant contracts with registered private Chinese medicine practitioners who operate these clinics for us and prescribe our CCMG products to patients; and

- *Chinese healthcare products.* We sell our Chinese healthcare products directly to major pharmacy chain stores, pharmacy stores, western practitioners, clinics and individual end consumers. These stores and clinics then sell our Chinese healthcare products to end consumers.

PRC

- *CCMG products.* We sell our CCMG products through both distributors and direct sales channels. Under our distributor model, we sell our CCMG products to distributors, who then resell our products to approved hospitals and medical institutions for clinical use. Under our direct sales model, we sell our CCMG products directly to approved hospitals and medical institutions for clinical use through our own marketing and sales team; and
- *Chinese healthcare products.* We sell a very small portion of our Chinese healthcare products directly to a limited number of end consumers.

We have built an extensive and loyal customer base in Hong Kong and the PRC. Leveraging on our 11-year relationship with Hong Kong Hospital Authority, for the years ended 31 December 2012, 2013 and 2014, our aggregated sales of CCMG products to hospitals and Chinese medicine clinics under the administration of the Hong Kong Hospital Authority accounted for 6.6%, 6.3% and 6.4% of our total revenue, respectively. During the same periods, sales to our five largest customers accounted for approximately 23.9%, 21.6% and 20.3% of our total revenue, respectively, and sales of products to our single largest customer accounted for approximately 6.2%, 5.9% and 5.9% of our total revenue, respectively. Please refer to the subsection headed “Business — Sales and Distribution Network” on page 158 of this prospectus for further details.

OUR PRODUCTION FACILITIES

We manufacture our CCMG products and Chinese herbal extracts for our Chinese healthcare products in our production base in Nanning, Guangxi Zhuang Autonomous Region. All of our production lines and our manufacturing facilities are strictly in compliance with the GMP standards of the PRC, Australia and the USP. For the year ended 31 December 2014, the utilisation rate of our manufacturing facilities was 71.8%. In addition, we outsource certain parts of our CCMG product production process to third party manufacturers in the PRC. We also outsource the encapsulation and packaging of our Chinese healthcare products to third party manufacturers in Hong Kong. Please refer to the subsection headed “Business — Production” on page 180 of this prospectus for further details on the designed capacity, actual production volume, utilisation rates and outsourcing arrangements in respect of our manufacturing facilities and process during the Track Record Period.

OUR RAW MATERIALS

Raw Chinese herbs are the primary raw materials of our production. We use over 600 types of raw Chinese herbs in the manufacture of our CCMG products and Chinese healthcare products. During the Track Record Period, prices of raw Chinese herbs, production equipment and other materials were generally steady. We source raw Chinese herbs for our production from various third party suppliers in the PRC. As at 31 December 2012, 2013 and 2014, we had a total of approximately 34, 37 and 42

SUMMARY

suppliers of raw Chinese herbs for our production, respectively. We select suppliers based on the quality, production bases and prices of their raw Chinese herbs, as well as their relevant experience and reputation in the Chinese medicine product industry.

For the years ended 31 December 2012, 2013 and 2014, purchases from our five largest suppliers together accounted for approximately 41.7%, 39.5% and 36.7% of our total purchases for the same periods, respectively. For the same periods, our purchases from the single largest supplier accounted for approximately 15.3%, 12.0% and 10.0% of our total purchases for the same periods, respectively. Please refer to the subsection headed “Business — Procurement and Suppliers” on page 189 of this prospectus for further details.

OUR COMPETITIVE STRENGTHS

- We are the market leader in the CCMG product market in Hong Kong where our products are widely recognised for their premium product quality, reliability and safety, which gives us a competitive advantage to significantly increase our market share in China
- We offer an extensive range of modernised CCMG products and a proprietary, patented and automated clinic and hospital management and dispensing system as a total solution for our customers
- Our modernised manufacturing facilities, coupled with our strong capabilities in medical product safety testing and stringent quality control during the manufacturing process, have enabled us to ensure premium product quality and safety
- We are a pioneering research and development company dedicated to the modernisation and internationalisation of Chinese medicine and our proven track record in the development of new TCM products, in particular CCMG combo formulae products, differentiates us from our competitors
- We have a highly experienced management team with a track record of delivering new and innovative products, strong growth and profitability

OUR BUSINESS STRATEGIES

- Deepen market penetration, expand into new sales channels and drive market demand for our CCMG products in Hong Kong
- Leverage on our substantial experience, accumulated know-how and strong brand recognition in Hong Kong to expand our business and distribution network rapidly in the CCMG product market in China
- Broaden our range of Chinese healthcare products and strengthen our online sales platform to capture a broader customer base
- Establish an offline to online (O to O) business model
- Commercialise our pipeline products, diversify our product offerings and develop new product formulations

SUMMARY

COMPETITION

We operate primarily in the CCMG product markets in Hong Kong and the PRC. According to the Euromonitor Report, the Hong Kong CCMG product market is relatively concentrated and the top five CCMG product manufacturers had a 95.0% market share in aggregate in terms of prescription value in 2014, primarily due to the high entry barriers to the market, including registration requirement of CCMG combo formulae products, requirement of product insurance and operation of an extensive sales network. We are the market leader dominating the Hong Kong CCMG product market with a 70% market share, significantly higher than the second-ranked market player.

According to the Euromonitor Report, the retail sales value of the PRC Chinese medicine market was approximately RMB1,323.8 billion in 2014. The PRC traditional Chinese herbal medicine market is a segment of the PRC Chinese medicine market, and its retail sales value increased at a CAGR of 35.2% for the period from 2010 to 2014, reaching RMB196,813.3 million in 2014. CCMG products have been regulated by the CFDA under the category of traditional Chinese herbal medicine. According to the Euromonitor Report, the market share of CCMG products in the PRC traditional Chinese herbal medicine market increased from 3.4% in 2010 to 4.0% in 2014. Such increase in market share was primarily due to the ease of use and time efficiency of CCMG products and broader coverage of the state medical insurance reimbursement policy in the PRC. During the same period from 2010 to 2014, the retail sales value of the PRC CCMG product market increased at a CAGR of 40.7%, reaching RMB7,829.2 million in 2014. The PRC CCMG product market is highly concentrated, according to the Euromonitor Report. As at 31 December 2014, there were only five CFDA-licensed CCMG product manufacturers in this market. The top three players dominated the PRC CCMG product market with an 87% market share in aggregate in terms of prescription value in 2014, primarily due to high entry barriers to the market, including strict supply chain requirements, high manufacturing cost and difficulty in the introduction of new brands in the existing hospital sales channel. We had a 5% market share in terms of prescription value in 2014 in the PRC CCMG product market. Please refer to the subsections headed “Industry Overview — the PRC Chinese Medicine Market” and “Industry Overview — the PRC CCMG Product Market” on pages 89 and 92 of this prospectus for further details.

In addition, we sell a broad range of Chinese healthcare products, such as PuraGold® (金靈芝)® and Oncozac® (安固生)®, targeted at end-consumers. According to the Euromonitor Report, the Chinese healthcare product markets in Hong Kong and the PRC are highly fragmented with thousands of manufacturers in the market, offering a wide range of products. For further details of the competitive landscape in each of the market segments where we operate, please see the section headed “Industry Overview” on page 79 and the subsection headed “Business — Competition” on page 193 of this prospectus.

OUR MATERIAL LICENSES

We rely on a number of material permits, licenses and approvals, please refer to the subsection headed “Business — Permits, Licenses and Approvals” on page 194 of this prospectus for further details.

OUR SHAREHOLDERS

Immediately upon completion of the Capitalisation Issue and the Global Offering, Mr. Chan and Ms. Man will, via PuraPharm Corp., Fullgold Development and Joint Partners, indirectly and beneficially own in total 57.28% of the issued share capital of our Company taking no account of

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Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of options granted under the Share Option Scheme, and hence Mr. Chan, Ms. Man, PuraPharm Corp., Fullgold Development and Joint Partners are our Controlling Shareholders.

COMMUNITY SERVICES BY OUR CONTROLLING SHAREHOLDERS

Mr. Chan and Ms. Man played active roles in advising various committees in five public bodies, which are academic and charity organisations related to Chinese medicine, and are also our customers (the “**Relevant Organisations**”) from 2000 to 2013 and from 2004 to the Latest Practicable Date, respectively. During the Track Record Period, we have submitted tenders and entered into contracts with the Relevant Organisations in compliance with the relevant mechanisms and requirements of the Relevant Organisations, and Mr. Chan and Ms. Man were not involved in the decision making process when the contracts involving us were considered by the Relevant Organisations. In addition, Mr. Chan and Ms. Man had disclosed their interests and abstained from expressing opinion and/or voting at the relevant meetings in which they had potential conflict of interests, in compliance with the relevant requirements of the Relevant Organisations on disclosure of interests and abstention. During the Track Record Period, our tenders or contracts with the Relevant Organisations were approved by boards, committees or the management teams of the Relevant Organisations in which Mr. Chan and Ms. Man did not hold any roles or positions as (i) the roles and positions held by Mr. Chan and Ms. Man in the Relevant Organisations were purely advisory in nature; or (ii) the value of our tenders or contracts that we submitted to the Relevant Organisations were not within the relevant approval limits of or not ordinarily handled by the board or committees of the Relevant Organisations which Mr. Chan and Ms. Man held positions in at the time. Our Directors are of the view that we have independent access to the Relevant Organisations and are able to secure orders from them without relying on the relationship between Mr. Chan and Ms. Man and the Relevant Organisations as we managed to renew contracts with, and secure new purchase orders from, certain Relevant Organisations and there was no significant adverse change in our sales to such Relevant Organisations, subsequent to the end of the term of Mr. Chan’s and Ms. Man’s roles in such Relevant Organisations since March 2013 and April 2014, respectively. Please refer to the subsection headed “Relationship with our Controlling Shareholders — Community Services by our Controlling Shareholders” on page 221 of this prospectus.

PRE-IPO INVESTMENT

From June 2013 to December 2014, the Pre-IPO Investors (as defined in the subsection headed “History, Reorganisation and Corporate Structure — Pre-IPO Investment” on page 126 of this prospectus) acquired and/or subscribed for a total of 205,403 shares in PuraPharm Corp., representing approximately 21.79% of the issued share capital of PuraPharm Corp., for an aggregate consideration of approximately HK\$133.8 million. The total consideration for the pre-IPO investment was fully settled by 31 December 2014. On the date immediately before the Listing Date, PuraPharm Corp. will repurchase all of its shares held by Fullgold Development, Best Revenue Investments Limited, K.M. Chan & Co Limited and each of the Pre-IPO Investors and in return, PuraPharm Corp. will transfer the shares in our Company held by it to each of them as consideration on a pro-rata basis. The investment cost per Share represents an average of approximately 35.92% discount over the mid-point of our Offer Price range. Each of the Pre-IPO Investors is an Independent Third Party. Our Directors are of the view that our Company will benefit from the investors’ commitment to our Company and their investments demonstrate their confidence in our operation and serve as an endorsement of our performance, strength and prospects. Please refer to the subsection headed “History, Reorganisation and Corporate Structure — Pre-IPO Investment” on page 126 of this prospectus for further details.

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SUMMARY OF OUR FINANCIAL INFORMATION

Our consolidated financial information has been prepared in accordance with HKFRSs. Selected items of our consolidated financial statements are set out below.

Key Information on Our Consolidated Statements of Profit or Loss

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	287,811	342,303	366,352
Cost of sales	(103,210)	(123,086)	(134,241)
GROSS PROFIT	184,601	219,217	232,111
Other income and gains	13,996	7,956	5,794
Selling and distribution expenses	(78,166)	(101,940)	(99,176)
Administrative expenses	(54,628)	(79,711)	(81,028)
Other expenses	(4,791)	(2,683)	(2,307)
Finance costs	(10,959)	(13,149)	(13,064)
PROFIT BEFORE TAX	50,053	29,690	42,330
Income tax expense	(5,911)	(3,399)	(7,823)
PROFIT FOR THE YEAR	<u>44,142</u>	<u>26,291</u>	<u>34,507</u>
Attributable to:			
Owners of the parent	44,094	26,264	34,463
Non-controlling interests	48	27	44
	<u>44,142</u>	<u>26,291</u>	<u>34,507</u>

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

	Year ended 31 December		
	2012	2013	2014
	<i>(HK\$ in thousands, except percentage)</i>		
CCMG product sales			
— Revenue	243,800	307,072	324,825
— Gross profit	150,936	194,127	202,587
— Gross profit margin	61.9%	63.2%	62.4%
Hong Kong			
<i>Direct sales</i>			
— Revenue	118,148	132,885	145,234
— Gross profit	79,628	88,204	93,536
— Gross profit margin	67.4%	66.4%	64.4%
<i>Product sales through Chinese medicine clinics</i>			
— Revenue	2,169	2,432	4,351
— Gross profit	1,851	2,077	3,735
— Gross profit margin	85.3%	85.4%	85.8%
PRC			
<i>Sales to distributors</i>			
— Revenue	87,275	95,148	94,103
— Gross profit	42,640	47,173	46,912
— Gross profit margin	48.9%	49.6%	49.9%
<i>Direct sales</i>			
— Revenue	36,208	76,607	81,137
— Gross profit	26,817	56,673	58,404
— Gross profit margin	74.1%	74.0%	72.0%

SUMMARY

	Year ended 31 December		
	2012	2013	2014
	<i>(HK\$ in thousands, except percentage)</i>		
Chinese healthcare product sales			
— Revenue	43,359	34,565	40,069
— Gross profit	33,331	24,737	28,726
— Gross profit margin.....	76.9%	71.6%	71.7%
Service income through Chinese medicine clinics			
— Revenue.....	652	666	1,458
— Gross profit	334	353	798
— Gross profit margin.....	51.2%	53.0%	54.7%
TOTAL			
— Revenue	287,811	342,303	366,352
— Gross profit	184,601	219,217	232,111
— Gross profit margin.....	64.1%	64.0%	63.4%

Please refer to the subsection headed “Financial Information — Discussion of Selected Items from the Consolidated Statements of Profit or Loss” on page 264 of this prospectus for further details.

Key Information on Our Consolidated Statements of Financial Position

	As at 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	97,436	107,897	114,704
Current assets	236,066	240,214	305,606
Non-current liabilities	2,669	6,559	1,922
Current liabilities.....	286,806	268,440	282,575
Total equity	44,027	73,112	135,813

We had net current assets of approximately HK\$23.0 million as at 31 December 2014, whereas we had net current liabilities of approximately HK\$50.7 million and HK\$28.2 million and as at 31 December 2012 and 2013, respectively. Please refer to the subsection headed “Financial Information — Discussion of Selected Items from the Consolidated Statements of Financial Position — Net Current Liabilities” on page 298 of this prospectus for further details.

Key Information on Our Consolidated Statements of Cash Flows

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents at beginning of year	(9,482)	16,870	25,039
Net cash flows from operating activities	62,128	11,034	31,091
Net cash flows used in investing activities.....	(37,793)	(6,268)	(24,634)
Net cash flows generated from/(used in) financing activities ..	2,165	2,355	(259)
Effect of foreign exchange rate changes, net	(148)	1,048	(562)
Cash and cash equivalents at the end of year	<u>16,870</u>	<u>25,039</u>	<u>30,675</u>

Please refer to the subsection “Financial Information — Liquidity and Capital Resources” on page 309 of this prospectus for further details.

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Key Financial Ratios

The following table sets forth certain key financial ratios as at the dates or for the periods indicated.

	As at 31 December		
	2012	2013	2014
Current ratio (%)	82.3	89.5	108.2
Net gearing ratio ⁽¹⁾	3.3	2.1	1.0
Net profit margin (%)	15.3	7.7	9.4
Return on equity (%)	100.3	36.0	25.4
Return on total assets (%).....	13.2	7.6	8.2
EBITDA margin (%)	24.8	16.0	18.8
Interest coverage.....	5.6	3.3	4.2
Average inventory turnover days	276	211	211
Average trade and bills receivable turnover days.....	76	89	101
Average trade payable turnover days	128	117	101

Note:

- (1) Net gearing ratio as at 31 December 2012, 2013 and 2014, respectively, was calculated based on our net debt (total interest-bearing bank and other borrowings (including, among others, loan from a shareholder) less cash and cash equivalents) divided by our total equity as at the respective dates.

Our net profit margin decreased from 15.3% for the year ended 31 December 2012 to 7.7% for the year ended 31 December 2013, primarily due to: (i) an increase in administrative expenses of HK\$25.1 million mainly as a result of an increase in staff costs, an increase in research and development costs and the listing expenses incurred for the Global Offering in 2013; (ii) an increase in selling and distribution expenses of HK\$23.7 million mainly as a result of an increase in advertising and promotion expenses and an increase in staff costs in 2013; and (iii) a decrease of HK\$6.2 million in gain on disposal of subsidiaries for the period from 2012 to 2013. Furthermore, our net profit margin increased from 7.7% for the year ended 31 December 2013 to 9.4% for the year ended 31 December 2014, primarily attributable to a decrease in selling and distribution expenses of HK\$2.7 million mainly as a result of a decrease in advertising and promotion expenses and a decrease in travelling and business development expenses in 2014, the effect of which was partially offset by an increase in administrative expenses of HK\$1.3 million mainly as a result of an increase in the listing expenses incurred for the Global Offering and an increase in staff costs in 2014. Please refer to the subsections headed “Financial Information — Key Financial Ratios” on page 317 and “Financial Information — Discussion of Selected Items from the Consolidated Statements of Financial Position” on page 298 of this prospectus for further details.

DIVIDEND POLICY

Subject to the Cayman Companies Law and our Memorandum and Articles of Association, through a general meeting, we may declare dividends in any currency but no dividend may be declared in excess of the amount recommended by our Directors. Our Directors may from time to time also declare interim dividends as appear to our Directors to be justified by our profits. The actual amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows, financial condition, operating and capital requirements, future prospects and other factors that our Directors deem relevant. We cannot guarantee when, if and in what form

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dividends will be paid in the future. During the Track Record Period, we have not declared and/or paid any dividends to our Shareholders. Please refer to the subsection headed “Financial Information — Dividend Policy” on page 323 of this prospectus.

SUMMARY OF MATERIAL RISK FACTORS

There are certain risks involved in our operations. The major risk factors in relation to our operations include: (i) if we fail to win the tender process with the Hong Kong Hospital Authority, our business may be materially and adversely affected; (ii) we rely on a stable supply of quality raw materials to manufacture our Chinese medicine products, and a decrease in the supply, or an increase in the cost of these raw materials could materially and adversely affect our business, financial condition and results of operations; (iii) we rely on distributors for the sale of our CCMG products in the PRC, and any deterioration of our relationship with them could materially and adversely affect our business, financial condition and results of operations; (iv) termination of our collaboration with external research partners or any failure of our research partners to meet our timing and quality standards could increase our research and development costs, delay the research and development process and reduce our efficiency in new product development; and (v) we may not be able to continue to fully comply with applicable GMP, TGA, USP or other regulatory requirements or renew our GMP, TGA and USP certifications and other permits and licenses which are material to our business. Please refer to the section headed “Risk Factors” on page 31 of this prospectus for further details.

NON-COMPLIANCE INCIDENTS

During the Track Record Period, certain of our group companies were involved in systemic non-compliance incidents in relation to: (i) the sale of our CCMG products to certain hospitals and medical institutions in the PRC for clinical use; (ii) contributions to the social insurance schemes and the housing provident funds in the PRC for our employees; and (iii) registration of lease agreements with the housing administrations in respect of some of our leased properties in the PRC for our warehouse and office use. Please refer to the subsection headed “Business — Regulatory Compliance — Systemic Non-compliance Incidents” on page 205 of this prospectus for further details. In view of the nature and extent of these non-compliance incidents and the potential risks we would be exposed to, our Directors believe that these incidents, individually or in the aggregate, do not and will not have any material financial or operational impact on our Group.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our business model, revenue structure and cost structure have remained unchanged since 31 December 2014. Our business continues to experience a stable growth and the contribution by each business segment is consistent with our expectation. Since 31 December 2014 and up to the Latest Practicable Date, there has not been, as far as we are aware, any material and adverse change in the Hong Kong and PRC CCMG markets which has any adverse impact on our operational results and financial conditions. During such period, sales volume of our CCMG products sold to our direct sales customers comprising approved hospitals and medical institutions in the PRC increased as these customers prescribed more of our products to patients, while the total number of our PRC direct sales customers remained stable during such period. Sales volume of our CCMG products sold to our distributors in the PRC also increased as the result of our consolidation of distribution network in 2014 and better-performing distributors purchased more of our products, while our CCMG product prices and the total number of our PRC distributors remained stable during such period. In the first quarter of 2015, we further entered into relevant agreements with Sinopharm International and its affiliated

SUMMARY

group companies in Fujian Province and Tianjin Municipality, respectively, pursuant to which we granted these affiliated companies the exclusive right to sell and distribute our CCMG products in the respective sales regions. Moreover, sale volume of our CCMG products sold to direct sales customers in Hong Kong remained relatively stable. For the four months ended 30 April 2015, our revenue and gross profit were approximately HK\$121.3 million and HK\$77.9 million, respectively, representing a growth of approximately 27.1% and 28.2% when compared to the same period in 2014 respectively. Our unaudited interim condensed consolidated financial statements for the four months ended 30 April 2015 were reviewed by the Reporting Accountants in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We acquired a land parcel to expand our manufacturing facilities in Nanning. As at 30 April 2015, our total prepayment for such land acquisition amounted to HK\$28.4 million, of which HK\$18.7 million was paid in the four months ended 30 April 2015. Please see “Financial Information — Discussion of Selected Items From the Consolidated Statements of Financial Position — Net Current Liabilities” on page 298 for further details.

In February, March and June 2015, we obtained new banking facilities of HK\$32.0 million, HK\$18.0 million and HK\$48.1 million, respectively, for working capital and general corporate purposes. As at the Latest Practicable Date, the unutilized portion of such new banking facilities was approximately HK\$31.4 million.

Recently, new regulations were introduced which relate to pharmaceutical products price control and pharmaceutical products procurement for public hospitals in China. According to our PRC legal advisers, such regulations are not applicable to our CCMG products and will have no material effect on our business. Please refer to the subsection headed “Regulations — PRC Laws and Regulations relating to the Pharmaceutical Industry — Manufacture and Sale of Pharmaceutical Products” on page 107 of this prospectus for further details. As far as we are aware, there was no material change in the general economic, market and regulatory conditions in our industry that had materially and adversely affected our business operations or financial condition since 31 December 2014 and up to the Latest Practicable Date. Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 December 2014, being the date to which our latest audited financial information was prepared.

LISTING EXPENSES

The estimated total listing expenses incurred in relation to the Listing (excluding fees payable by the Selling Shareholders) are approximately HK\$46.8 million (including, among other, estimated underwriting commission of approximately HK\$9.6 million based on the Offer Price of HK\$5.68 per Share being the mid-point of the Offer Price range as disclosed in this prospectus). During the Track Record Period, we incurred listing expenses of approximately HK\$7.5 million which has been reflected in our consolidated statements of profit or loss. We expect to incur additional listing expenses of approximately HK\$39.3 million after the Track Record Period, of which approximately HK\$16.4 million will be recognised as expenses in the consolidated statements of profit or loss for the year ending 31 December 2015 and the remainder will be recognised directly in equity upon Listing. We expect that the listing expenses to be incurred in connection with the Global Offering for the year ending 31 December 2015 will have a material adverse impact on our results of operations.

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GLOBAL OFFERING STATISTICS

All statistics in the following table are based on the assumptions that: (i) completion of the Capitalisation Issue; (ii) the Global Offering of 71,130,000 Shares (comprising 56,250,000 new Shares and 14,880,000 Sale Shares) has been completed; (iii) 225,000,000 Shares are issued and outstanding following completion of the Global Offering; and (iv) the Over-allotment Option is not exercised.

	Based on an Offer Price of HK\$5.16 per Share	Based on an Offer Price of HK\$6.19 per Share
Market capitalisation of our Shares upon completion of the Global Offering ⁽¹⁾	HK\$1,161.0 million	HK\$1,392.8 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾	HK\$1.7	HK\$1.9

Notes:

- (1) Taking no account of any shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, the options granted or to be granted under the Share Option Scheme and any shares which may be issued or repurchased by the Company pursuant to the general mandate to issue Shares and general mandate to repurchase Shares.
- (2) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 225,000,000 Shares were in issue assuming that the Global Offering had been completed on 31 December 2014 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or of any Shares which may be issued upon the exercise of any option which may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and the general mandate to repurchase Shares.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to our Company from the Global Offering (after deducting underwriting fees and estimated expenses in connection with the Global Offering payable by us and assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$5.68 per Share, being the mid-point of the indicative Offer Price range stated in this prospectus) will be approximately HK\$272.7 million. We currently intend to apply such net proceeds for the following purposes. Please see the section headed “Future Plans and Use of Proceeds” on page 325 of this prospectus for details.

Percentage and amount of the net proceeds	Purposes
Approximately 30.0% or HK\$81.8 million	Expand manufacturing facilities and enhance our existing production lines
Approximately 25.0% or HK\$68.2 million	Establish new Nong's® (農本方)® Chinese medicine clinics in Hong Kong and the PRC
Approximately 20.0% or HK\$54.5 million	Expand our distribution network into our new target cities in the PRC mainly through our collaboration with Sinopharm
Approximately 15.0% or HK\$40.9 million	To fund the development and launch of our two new PCM products
Approximately 10.0% or HK\$27.3 million	Working capital and other general corporate purposes

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. This section also contains definitions of technical terms used in this prospectus as they relate to us and as they are used in this prospectus in connection with our business or us. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

“Application Forms(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 Offering
“Articles” or “Articles of Association”	the articles of association of our Company, conditionally adopted on 12 June 2015 and as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	the board of Directors of our Company
“business day”	any day (excluding a Saturday, or a Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate, a measurement to assess the growth rate of value over time
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and General Information — A. Further Information about our Group — 3. Resolutions in writing of the Shareholders of our Company passed on 12 June 2015” in Appendix IV to this prospectus
“capsules”	a form in which medicines may be delivered for oral ingestion, produced by mixing extracted active medicinal ingredients with supplemental materials which are sealed in a capsule
“Cayman Companies Law” or “Companies Law”	the Companies Law (as revised) of the Cayman Islands as amended, consolidated and supplemented from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“CCASS Clearing Participant”	a person admitted to participate in CCASS at a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“CCMG” or “concentrated Chinese medicine granule”	traditional Chinese medicine herb extracted by using modern extraction and concentration technologies. They have the same degree of curative efficacy, taste, aroma and flavour as in traditional Chinese medicine decoction and they dissolve instantly in hot water
“CCMG Regulations”	the Provisional Regulations on Administration of Concentrated Chinese Medicine Granules (《中藥配方顆粒管理暫行規定》) promulgated by the State Drug Administration (the predecessor of the CFDA) and effective on 5 July 2001
“CFDA”	the China Food and Drug Administration (國家食品藥品監督管理總局)
“Chairman”	the chairman of our Board
“CHF”	Swiss franc, the lawful currency of Switzerland
“China” or the “PRC”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macao and Taiwan, and “Chinese” shall be construed accordingly
“Chinese healthcare products”	Chinese medicine products which may be sold over the counter in pharmacies or other retail outlets without requiring a prescription by a medical practitioner
“Chinese Medicine Council of Hong Kong”	a statutory body established on 13 September 1999 under the Chinese Medicine Ordinance under which (i) the Chinese Medicines Board of Hong Kong governs the issuance of licenses for proprietary Chinese medicines, and (ii) the Chinese Medicine Practitioners Board of Hong Kong governs the issuance of licenses for Chinese medicine practitioners

DEFINITIONS

“Chinese Medicine Ordinance” or “CMO”	the Chinese Medicine Ordinance (Chapter 549 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Chinese Pharmacopeia”	the Pharmacopeia of the PRC (《中國藥典》) edited and published by the Pharmacopeia Committee of the China Food and Drug Administration and issued with the consent of the State Council of the PRC, which is the statutory standard that forms the basis of monitoring the production, quality control, supply and usage of medicine and includes the name, nature, shape, component, dosage as well as the method of storage and prescription
“CMCMS” or “Chinese Medicine Clinic Management System”	a proprietary solution system designed by our Group which integrates CCMG products, computer software, a computerised dispensing system, a medicine storage shelf and cabinet and four modules including electronic scale, a scanner, a mixer and a packaging machine for application in the Chinese medicine industry
“CNAS”	the China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”, “our Company”, “we” or “our”	PuraPharm Corporation Limited (培力控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 2 December 2011, and, except where the context otherwise requires, all of its subsidiaries, or where the context refers to the time before it became the holding company of its present subsidiaries, its present subsidiaries
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, and in the context of this prospectus, refers to the controlling shareholder(s) of our Company, being Mr. Chan, Ms. Man, PuraPharm Corp., Fullgold Development and Joint Partners

DEFINITIONS

“Deed of Non-Competition”	a deed of non-competition dated 16 June 2015 entered into by the Controlling Shareholders in favour of our Company, details of which are disclosed in the subsection headed “Relationship with Our Controlling Shareholders — Non-competition Undertakings” in this prospectus
“Director(s)”	the director(s) of our Company
“DKSH”	DKSH Hong Kong Ltd., a leading market expansion services provider in Hong Kong and an Independent Third Party
“EIT”	the enterprise income tax of the PRC
“Euromonitor”	Euromonitor International, a global market research company and provider of international market intelligence on consumer and business-to-business (B2B) industries, and an Independent Third Party
“Euromonitor Report”	the research report dated 25 June 2015 compiled by Euromonitor and commissioned by the Company
“Foreign Investment Catalogue”	Catalogue of Industries for Guiding Foreign Investment (《外商投資企業產業指導目錄》), the latest edition of which was jointly promulgated by NDRC and MOFCOM on 10 March 2015 and effective on 10 April 2015, as amended, supplemented or otherwise modified from time to time
“Fullgold Development”	Fullgold Development Limited, a limited liability company incorporated in the BVI on 8 February 2005 and is wholly owned by Mr. Chan, one of our Controlling Shareholders
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GMP” or “Good Manufacturing Practice”	Good Manufacturing Practice, which are guidelines and regulations issued to ensure that medicinal products subject to those guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended use
“Gold Sparkle”	Gold Sparkle Limited (金煌有限公司), a limited liability company incorporated in the BVI on 1 April 2010 which is wholly owned by Mr. Chan

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“Gold Sparkle Plantation”	Gold Sparkle Plantation Holdings Limited (金煌種植控股有限公司), a limited liability company incorporated in the BVI on 17 September 2014 and a wholly owned subsidiary of Gold Sparkle as at the Latest Practicable Date
“GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“GSP” or “Good Supply Practices”	the Good Supply Practice for Pharmaceutical Products (《藥品經營質量管理規範》) promulgated by the PRC government on 22 January 2013 in relation to the management procedures and standards regulating the pharmaceutical product supply chain in the PRC
“Herbminers”	Herbminers Informatics Limited, a limited liability company incorporated in Hong Kong on 9 September 2010 and is owned as to 80% by Mr. Chan and 20% by Independent Third Parties
“HKD”, “HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Hospital Authority”	a statutory body established on 1 December 1990 under the Hospital Authority Ordinance to manage all public hospitals in Hong Kong

DEFINITIONS

“Hong Kong Public Offer Shares”	the 7,113,000 Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the issue and offer for subscription of the Hong Kong Public Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies, and Stock Exchange trading fees), subject to and in accordance with the terms and conditions described in the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the several underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 24 June 2015 relating to the Hong Kong Public Offering entered into by, among others, our Company, our Controlling Shareholders, the Selling Shareholders and the Hong Kong Underwriters, as further described in “Underwriting” in this prospectus
“Independent Third Party(ies)”	person(s) or company(ies) which is(are) not a connected person(s) (as defined in the Listing Rules) of our Company
“International Offer Shares”	the 64,017,000 Shares (comprising 49,137,000 new Shares to be offered for subscription by our Company and 14,880,000 Sale Shares to be offered for sale by the Selling Shareholders) initially being offered under the International Offering (subject to adjustment and the Over-allotment Option as described in the section headed “Structure of the Global Offering” in this prospectus)
“International Offering”	the conditional placing of the International Offer Shares by the International Underwriters to professional, institutional, corporate and/or other investors at the Offer Price, as further described in “Structure of the Global Offering” in this prospectus

DEFINITIONS

“International Underwriters”	the several underwriters of the International Offering, who are expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering, which is expected to be entered into by, among others, our Company, our Controlling Shareholders, the Selling Shareholders and the International Underwriters on or around the Price Determination Date
“ISO”	The International Organisation for Standardisation
“ISO 17025 standards”	the general requirements for the competence to carry out tests and/or calibrations according to standard, non-standard and/or laboratory-developed methods, which are international laboratory management standards developed by the International Organisation for Standardisation
“Joint Lead Managers”	BOCOM International Securities Limited and DBS Asia Capital Limited
“Joint Partners”	Joint Partners Investments Limited, a limited liability company incorporated in the BVI on 5 May 1998 and is owned as to 50% by Mr. Chan and 50% by Ms. Man, both of whom are our Controlling Shareholders
“Latest Practicable Date”	15 June 2015, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus
“Listing”	listing of the Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macao” or “Macau”	the Macao Special Administrative Region of the PRC
“Main Board”	the stock exchange operated by the Stock Exchange which is independent from and operated in parallel to the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, conditionally adopted on 12 June 2015, and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“mg”	milligram, a metric unit of mass equals to one thousandth of a gram
“ml”	millilitre, a metric unit of volume equals to one thousandth of a litre
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOP”	Macao Pataca, the lawful currency of Macao
“Mr. Chan”	Mr. Chan Yu Ling, Abraham, our executive Director, chairman, chief executive officer, one of our Controlling Shareholders and the spouse of Ms. Man
“Ms. Man”	Ms. Man Yee Wai, Viola, our executive Director, one of our Controlling Shareholders and the spouse of Mr. Chan
“Natural Corporation”	Natural Corporation Limited (萬象行有限公司), a limited liability company incorporated in Hong Kong on 9 July 1997 and our indirect wholly owned subsidiary
“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)
“Nong’s Clinic”	Nong’s Clinic Holdings Limited, a limited liability company incorporated in the BVI on 19 August 2003 and our indirect wholly owned subsidiary
“Nong’s Company Guangxi”	Nong’s (Guangxi) Company Limited (農本方(廣西)有限公司), a limited liability company incorporated in Hong Kong on 29 September 2014 and our indirect wholly owned subsidiary
“Nong’s Company HK”	Nong’s Company Limited (農本方有限公司), a limited liability company incorporated in Hong Kong on 26 June 2002 and our indirect wholly owned subsidiary
“Nong’s Corporation”	Nong’s Corporation Limited, formerly known as Biosource Industrial Limited, a limited liability company incorporated in the BVI on 22 August 2000 and our indirect wholly owned subsidiary

DEFINITIONS

“Nong’s International”	Nong’s International Limited, formerly known as Novel Developments Limited and PuraPharm China Limited, a limited liability company incorporated in the BVI on 5 May 1998 and our indirect wholly owned subsidiary
“Nong’s Mongkok Clinic”	Nong’s Chinese Medicine Health Care Centre Limited (農本方中醫藥保健中心有限公司), formerly known as Nong’s Chinese Medicine Health Care Centre Limited (農本方中醫藥保健有限公司), a limited liability company incorporated in Hong Kong on 27 December 2002 and our indirect wholly owned subsidiary
“Nong’s Science Park Clinic”	Nong’s Chinese Medicine Clinic Centre Limited (農本方中醫藥診療中心有限公司), a limited liability company incorporated in Hong Kong on 15 October 2003 and our indirect wholly owned subsidiary
“Offer Price”	the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levies, and Stock Exchange trading fees) of not more than HK\$6.19 and expected to be not less than HK\$5.16, such price to be agreed upon by our Company (for ourselves and on behalf of the Selling Shareholders) and the Sole Global Coordinator (on behalf of the Underwriters) on or before the Price Determination Date
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offer Shares together, where relevant, with additional Shares issued under the exercise of the Over-allotment Option
“OTC”	over-the-counter
“Over-allotment Option”	the option granted by us to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, pursuant to which we may be required to allot and issue up to 10,669,500 additional Shares (representing up to 15% of the Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC

DEFINITIONS

“PCM”	proprietary Chinese medicines as defined in section 2 of the Chinese Medicine Ordinance
“Poly Modern Research”	Poly Modern TCM Research Institute Limited (國大精研有限公司), formerly known as 理大漢方精研所有限公司 and PolyU Modern TCM Research Institute Limited, a limited liability company incorporated in Hong Kong on 19 March 2003 and our indirect wholly owned subsidiary
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	the PRC Accounting Standards for Business Enterprises, and the Application Guidance for Accounting Standard for Business Enterprise and interpretation of Accounting Standards for Business Enterprise and other relevant regulations
“PRC GMP” or “PRC Good Manufacturing Practices”	the guidelines and regulations issued from time to time pursuant to the Law of the People’s Republic of China on the Administration of Pharmaceuticals (《中華人民共和國藥品管理法》) and to provide quality assurance and ensure that pharmaceutical products subject to the guidelines and regulations are consistently produced and controlled to the quality and standards appropriate for their intended uses
“PRC government” or “state”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“prescription value”	the sales value measured by prescription prices paid by end consumers or patients to medical institutions for traditional Chinese medicine products (for example, CCMG products) based on prescriptions provided by Chinese medicine practitioners
“Price Determination Date”	the date, expected to be on or around Tuesday, 30 June 2015 but no later than Friday, 3 July 2015, on which the Offer Price is fixed for the purposes of the Global Offering

DEFINITIONS

“Province” or “province”	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
“Provincial FDA”	the provincial food and drug administration authority of a province, municipality or region of the PRC
“Provincial Medical Insurance Drugs Catalog”	the basic medical insurance, work injury insurance and maternity insurance drugs catalogue, issued by the local agency of human resources and social security of a province, municipality or autonomous region
“PuraPharm Australia”	PuraPharm Australia Pty Limited, a limited liability company incorporated in New South Wales, Australia on 1 November 2011 and our indirect wholly owned subsidiary
“PuraPharm Canada”	PuraPharm Canada Corporation, a limited liability company incorporated in Ontario, Canada on 8 March 2012 and our indirect wholly owned subsidiary
“PuraPharm Corp.”	PuraPharm Corporation Limited, a limited liability company incorporated in the BVI on 5 May 1998 and will be wholly owned by Joint Partners upon Listing
“PuraPharm Corporation USA”	PuraPharm Corporation, a limited liability company incorporated in California on 22 June 2000 and our indirect wholly owned subsidiary
“PuraPharm Health”	PuraPharm Health Limited, a limited liability company incorporated in the BVI on 22 December 2010 and our indirect wholly owned subsidiary
“PuraPharm HK”	PuraPharm International (H.K.) Limited (培力(香港)健康產品有限公司), formerly known as Sunny Pacific Asia Limited (億華亞洲有限公司) and PuraPharm International (H.K.) Limited (培力(香港)健康產品有限公司), a limited liability company incorporated in Hong Kong on 4 May 1998 and our indirect wholly owned subsidiary
“PuraPharm Holdings”	PuraPharm Holdings Limited, a limited liability company incorporated in the BVI on 22 December 2010 and our direct wholly owned subsidiary

DEFINITIONS

“PuraPharm International”	PuraPharm International Limited (培力健康食品有限公司), a limited liability company incorporated in Hong Kong on 22 May 2002 and our indirect wholly owned subsidiary
“PuraPharm Investment”	PuraPharm Investment Limited, formerly known as Nong’s International Limited and PuraPharm Corporation Limited, a limited liability company incorporated in Hong Kong on 24 May 2006 and our indirect wholly owned subsidiary
“PuraPharm Macao”	PuraPharm (Macao) Limited (培力(澳門)一人有限公司), a limited liability company incorporated in Macao on 3 August 2012 and our indirect wholly owned subsidiary
“PuraPharm Nanning”	Purapharm (Nanning) Pharmaceuticals Co. Limited (培力(南寧)藥業有限公司), formerly known as Purapharm (Nanning) Health Products Co., Ltd. (培力(南寧)保健食品有限公司), a limited liability company established in the PRC on 19 August 1998 and our indirect wholly owned subsidiary
“PuraPharm Nanning Pharmaceuticals”	Nanning Purapharm Pharmaceuticals Technology Company Limited (南寧培力醫藥技術有限公司), a limited liability company established in the PRC on 2 February 2015 and our indirect wholly owned subsidiary
“PuraPharm Research”	PuraPharm Research Corporation Limited (培力科研有限公司), a limited liability company incorporated in Hong Kong on 17 September 2001 and our indirect wholly owned subsidiary
“PuraPharm Singapore”	PuraPharm International (Singapore) Pte Ltd, a limited liability company incorporated in Singapore on 23 May 2000 and our indirect wholly owned subsidiary
“Regulation S”	Regulation S under the Securities Act
“Reorganisation”	the reorganisation of the companies within our Group as set out in the section headed “History, Reorganisation and Corporate Structure” in this prospectus
“Reporting Accountants”	Ernst & Young

DEFINITIONS

“retail sales value”	the sales value measured by prices paid by end consumers or patients for traditional Chinese medicine products. In retail channels, retail sales value is measured by retail selling prices paid by end consumers or patients to retailers for traditional Chinese medicine products, including Chinese healthcare products. In medical institutions (such as hospitals and Chinese medicine clinics), retail sales value is measured by prescription prices paid by end consumers or patients to medical institutions for traditional Chinese medicine products based on prescriptions provided by Chinese medicine practitioners
“RMB” or “Renminbi”	Renminbi Yuan, 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)
“Sale Shares”	the 14,880,000 Shares initially being offered by the Selling Shareholders for sale under the Global Offering
“SARS”	severe acute respiratory syndrome, a severe viral infection of the lungs characterised by high fever, a dry cough, and breathing difficulties
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SATCM”	State Administration of Traditional Chinese Medicine of the PRC (國家中醫藥管理局)
“Securities Act”	the U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“Selling Shareholders”	Cosy Good Limited and PCL Investment Holding Ltd.
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	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 shares of US\$0.10 each in capital of our Company

DEFINITIONS

“Share Option Scheme”	the share option scheme conditionally adopted by the written resolutions of the Shareholders of our Company passed on 12 June 2015, the principal terms of which are summarised in the section headed “Statutory and General Information — D. Other Information — 1. Share Option Scheme” in Appendix IV to this prospectus
“Shareholders”	holder(s) of the Share(s)
“Sinopharm”	Sinopharm Group Co. Ltd. (國藥控股股份有限公司), a company limited by shares established in the PRC on 8 January 2003, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 01099)
“Sinopharm International”	Sinopharm Holding Hong Kong International Limited, a limited liability company established in Hong Kong on 31 March 2014, a subsidiary of Sinopharm and an Independent Third Party
“Sole Global Coordinator” or “Sole Bookrunner”	BOCOM International Securities Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities
“Sole Sponsor” or “BOCOM”	BOCOM International (Asia) Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities
“sq.m”	square metre
“Stabilising Manager”	BOCOM International Securities Limited
“standardisation”	the process for the purpose of ensuring that a product is consistent from batch to batch in terms of its identity, strength, purity and quality. It involves measuring the amounts of chemicals or compounds in each product batch and ensure that they fall within a prescribed level of concentration according to the relevant standards
“Stock Borrowing Agreement”	a stock borrowing agreement expected to be entered into on or about the Price Determination Date between Fullgold Development and the Stabilising Manager
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules, unless the context otherwise requires

DEFINITIONS

“S\$”	Singapore dollars, the lawful currency of Singapore
“TCM”	traditional Chinese medicines for the prevention and treatment of diseases under the application of Chinese medicinal theories, including medicines with herbal, animal or mineral materials
“TGA”	the Australia Therapeutic Goods Administration, Australia’s regulatory authority for therapeutic goods, which regulates therapeutic goods through pre-market assessment, post-market monitoring and enforcement of standards, licensing of Australian manufacturers and verifying overseas manufacturers’ compliance with the same standards as their Australian counterparts
“Track Record Period”	the three financial years ended 31 December 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 “U.S.”	the United States of America
“US dollars”, “USD” or “US\$”	United States dollars, the lawful currency of the United States
“USP”	the United States Pharmacopeia Convention, a scientific non-profit organisation that sets standards for the identity, strength, quality, and purity of medicines, food ingredients, and dietary supplements manufactured, distributed and consumed worldwide
“VAT”	value-added tax; all average selling prices of our products are exclusive of VAT in this prospectus
“White Form eIPO”	the application for Hong Kong Public Offer Shares to be issued in your own name by submitting applications online through the designated website for the White Form eIPO Service Provider at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Zuellig”	Zuellig Pharma Limited, a Asia Pacific-focused healthcare solution and logistics service provider based in Hong Kong, and an Independent Third Party
“%”	per cent

DEFINITIONS

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

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.

In this prospectus, if there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail.

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:

- our business and operating strategies and plans for the development of our businesses, our ability to implement such strategies and plans, and the expected timetable of such implementation;
- our financial condition;
- our dividend distribution plans;
- the prospects of our business and operations, including development plans for our businesses;
- the regulatory environments, as well as the general industry outlooks, for the CCMG products and TCM industries in the PRC and Hong Kong, respectively;
- further developments in, and competitive environments for, the CCMG product and TCM industries in the PRC and Hong Kong, respectively; and
- the general economic trends of the PRC and Hong Kong, respectively.

The words “aim”, “anticipate”, “believe”, “contemplate”, “continue”, “could”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “potential”, “predict”, “project”, “schedule”, “seek”, “should”, “target”, “will”, “would”, and the negatives forms of these terms, as well as similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section. Our Directors have confirmed that the forward-looking statements contained in this prospectus are made after due and careful consideration and on the basis and assumptions that are fair and reasonable.

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

RISK FACTORS

Any investment in our Shares involves various risks. You should carefully read and consider all the information set out in this prospectus and, in particular, the risks and uncertainties described below before deciding to make any investment in our Shares. You should pay particular attention to the fact that we are incorporated in Hong Kong and that a substantial part of our operations are conducted in Hong Kong and the PRC and are governed by a legal and regulatory environment in some respects which differs from those that prevail in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Shares could decline due to any of these risks and uncertainties, and you may lose part or all of your investment as a result.

RISKS RELATED TO OUR BUSINESSES

If our products are not manufactured in accordance with our quality standards, our business and reputation could be adversely affected

Our products and manufacturing process are required to meet certain quality control and manufacturing standards. We have established a quality control system and implemented standard operating procedures to prevent quality issues in respect of our products. Please refer to the subsection headed “Business — Quality Control” in this prospectus for further details. Despite our quality control system and procedures, we cannot eliminate all risk of errors, defects or failure in our manufacturing process. Quality defects may fail to be detected or rectified as a result of a number of factors, many of which are outside our control, including:

- manufacturing errors;
- technical or mechanical malfunctions in our manufacture process;
- human error or malfeasance by our quality control personnel;
- tampering by third parties; and
- quality issues with the raw materials we procure.

Moreover, we outsource certain parts of our CCMG product production process to third party manufacturers in the PRC. We also outsource the encapsulation and packaging of our Chinese healthcare products to third party manufacturers in Hong Kong. Despite our guidelines and agreements with outsourced contractors, they may fail to meet our quality control and manufacturing standards and we may fail to prevent the substandard products from being delivered to our customers. Such failures could result in product recalls or withdrawals, regulatory fines, or other problems which could seriously harm our reputation and business, expose us to liability, and adversely affect our revenues and profitability.

RISK FACTORS

We rely on distributors for the sale of our CCMG products in the PRC, and any deterioration of our relationship with them could materially and adversely affect our business, financial condition and results of operations

We sell a substantial proportion of our CCMG products through distributors in the PRC. As of 31 December 2014, we have over 90 distributors for our CCMG products in the PRC. For the years ended 31 December 2012, 2013 and 2014, sales of CCMG products to our distributors in the PRC accounted for approximately 30.3%, 27.8% and 25.7% of our total revenue for the same periods, respectively. Please refer to the subsection headed “Business — Sales and Distribution Network” in this prospectus for further details. We cannot assure you that our distributors will continue to purchase our products in the same quantities as in prior years or that our relationship with any of our distributors will continue. If we lose some of our major distributors and are unable to replace them quickly, we may be unable to effectively market and sell our products, which could materially and adversely affect our business, financial condition and results of operation. While we have established long term work relationship and entered into distribution agreements with our distributors, we cannot assure you that we will be able to renew our contracts with them on terms and conditions commercially acceptable to us.

We may be unable to effectively manage the activities of our distributors, and our business, prospects and product brands may be materially and adversely affected by actions taken by our distributors

The success of our business depends on our ability to maintain and manage a distribution network that timely delivers our products in all the sales regions in Hong Kong and the PRC where we operate. However, due to the large number of our distributors, it is difficult for us to closely monitor all aspects of their practices. Moreover, we have no ownership or managerial control over any of our third party distributors. We cannot assure you that our distributors will at all times strictly adhere to the terms and conditions of our distribution agreements. Our distributors could take any of the following actions which could have an adverse effect on our business, prospects and product brands:

- failure to meet the sales targets for our products in accordance with relevant agreements;
- sale of the products that compete with our products;
- sale of our products to hospitals and medical institutions which we have not authorised;
- failure to adequately promote our products;
- failure to maintain the requisite licenses or otherwise failure to comply with applicable regulatory requirements when they sell our products;
- failure to provide proper training and services to our customers; and
- violation of anti-corruption and other laws of Hong Kong the PRC and relevant foreign countries.

RISK FACTORS

Moreover, we typically enter into agreements with our distributors for a term ranging from one to three years, which requires us to continually renew distribution agreements with our distributors and maintain our relationships with them. Our distributors might elect not to renew their distribution agreements with us, or terminate their business relationships with us for various reasons. In addition, our strategies also contemplate that we will seek to expand our distribution network by strengthening our relationships with large distributors. In the event that we are unable to maintain and expand our distribution network effectively as we have planned, our sales volume and business prospects could be adversely effected.

We expect to rely significantly on our collaboration with Sinopharm to expand the distribution of our products in the PRC

We intend to expand the geographic reach of our products to potential customers in the PRC mainly through our collaboration with Sinopharm. We entered into a distribution framework agreement and other agreements with Sinopharm, whereby they agreed to use their established distribution networks and strong logistics service capabilities to sell and distribute our CCMG products in our target markets in the PRC. Please refer to the subsection headed “Business — Sales and Distribution Network — Sales and Distribution of CCMG Products in the PRC — Framework Agreement with Sinopharm” in this prospectus for further details. The success of our proposed expansion will depend on many factors, including, among others, Sinopharm’s ability to form relationships with, and manage, an increasing number of customers comprising approved hospitals and medical institutions in the PRC. In addition, Sinopharm may not be able to anticipate and respond effectively to competition posed by its competitors. If Sinopharm fails to expand our distribution network in the PRC as planned, or if it is unable to compete effectively with its competitors, we may not be able to successfully carry out our expansion plan, and our business, financial condition and results of operations may be adversely affected.

Our ability to accurately track the inventory levels of our distributors is limited, which may make it difficult for us to accurately predict sales trends

We do not have a comprehensive system to track the sales of our products by our distributors to approved hospitals and medical institutions in the PRC as well as their respective inventory levels of our products. Our ability to track such sales and inventory levels mainly relies on our on-site visits and regular communication with our distributors for the purpose of evaluating sales to their customers. We have limited contact with patients and our sales to distributors may not be reflective of actual sales trends to patients.

Because of our limited ability to regularly track the inventory levels of our distributors or their customers, we may be unable to gather sufficient information and data regarding the market acceptance of our products as well as the preferences of Chinese medicine practitioners and patients in relation to our products. The tracking of inventory levels also would provide useful information as to the market acceptance of our products in a particular region so that we are able to realign our marketing strategy if needed. The failure to accurately track the sales and inventory levels of our distributors may make it difficult for us to accurately predict sales trends and implement successful marketing or product strategies.

RISK FACTORS

Each product has an associated expiration date after which the product cannot be prescribed or sold. When sales trends change too rapidly or when we do not estimate future demand accurately in our production plans, we may over-produce certain products or have excess raw materials that we cannot use before their expiration dates, and we may be required to write off or write down the value of our inventory, which could adversely affect our results of operations.

If we fail to win the tenders which we enter, our business may be materially and adversely affected

During the Track Record Period, a significant portion of our revenue was derived from sales of our CCMG products to public hospitals and Chinese medicine clinics in Hong Kong. Sales of Chinese medicine products by public hospitals and Chinese medicine clinics in Hong Kong are often awarded based on a tender process run by the relevant authority. For the years ended 31 December 2012, 2013 and 2014, our total sales to public hospitals and Chinese medicine clinics in Hong Kong which involved tender processes were approximately HK\$38.8 million, HK\$44.2 million and HK\$47.9 million, respectively, representing approximately 13.5%, 12.9% and 13.1% of our total revenue for the same periods, respectively. Tenders are often awarded, after taking into consideration, among other things, the quality and price of CCMG products. Although we have won multiple tenders over the years, we cannot guarantee that we will continue to win future tenders. We could fail to win such tender process, due to various reasons such as our price being not competitive or unforeseen events negatively affecting our reputation. If we fail to win tenders from the relevant authorities, our business, results of operations and prospects will be adversely affected.

We are subject to certain risks relating to the management and operation of our Nong's® (農本方)® Chinese medicine clinics

We have established our Nong's® (農本方)® Chinese medicine clinics by partnering with registered Chinese medicine practitioners to operate these Chinese medicine clinics on our behalf. Please refer to the subsection headed “Business — Sales and Distribution Network — Sales of CCMG Products in Hong Kong — Business Model of Nong's® (農本方)® Chinese Medicine Clinics” in this prospectus for further details. We intend to increase the total number of such Chinese medicine clinics in Hong Kong to 30 by the end of 2015. We note that establishing and maintaining our partnership with experienced Chinese medicine practitioners may be competitive. If potential Chinese medicine practitioners do not consider our Chinese medicine clinics favourably compared to other clinics which they are offered to join, or if existing Chinese medicine practitioners terminate their business relationships with us, we may have difficulty in attracting or retaining a sufficient number of suitable Chinese medicine practitioners to carry out our expansion plan. If we fail to successfully manage the expansion of our Chinese medicine clinics, we may not be able to increase our revenue as planned, or recover our initial investments, or at all.

We are exposed to potential liabilities that are inherent to the sale of pharmaceutical products and provision of medical services to patients. We rely on the Chinese medicine practitioners operating our Chinese medicine clinics to make proper clinical assessments regarding their diagnosis and treatment of patients. Any incorrect clinical assessment by the Chinese medicine practitioners may result in

RISK FACTORS

unsatisfactory treatment outcomes. If any dispute arises and/or any proceeding is initiated against these Chinese medicine practitioners, our Chinese medicine clinics may also be joined as a party, which, regardless of its merit or eventual outcome, could result in significant legal costs and reputational damage to us.

Although we maintain product liability insurance covering product liability arising from our CCMG product sales, as well as professional indemnity insurance and other types of insurances covering liability arising from the provision of diagnostic services and operation of these Chinese medicine clinics, we may face claims or liabilities beyond the scope of our insurance coverage. In addition, if we experience any business disruption, litigation or natural disaster at these Chinese medicine clinics, we may incur additional costs and have to divert our management's attention and resources on such matters, which may adversely affect our business, financial condition and results of operations.

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

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

- to gain access to, and for our products to be perceived favourably by, the hospitals, Chinese medicine clinics, medical institutions and Chinese medicine practitioners which drive demand for CCMG products in Hong Kong and the PRC;
- to effectively work with the authorities that regulate various aspects of our business;
- to gain the trust of Chinese medicine practitioners and patients in our products;
- to competitively position ourselves in the centralised tender processes required for CCMG products by the Hong Kong Hospital Authority;
- to attract employees, distributors, logistics service providers and external research partners to work with us; and
- to increase market share of our CCMG products and Chinese healthcare products through brand recognition.

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

- adverse associations with our products, including with respect to their efficacy or side effects;
- the effects of counterfeit products purporting to be our products;

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- lawsuits and regulatory investigations against us or otherwise relating to our CCMG products and Chinese healthcare products or the TCM industry;
- improper or illegal conduct by our employees, distributors and logistics service providers, whether or not authorised by us; and
- adverse publicity that is associated with us, our CCMG products and Chinese healthcare products or the TCM industry, whether founded or unfounded.

If we or our brand names fail to maintain a positive reputation as a result of these or other factors, our products may be perceived unfavourably by hospitals, Chinese medicine clinics, medical institutions, Chinese medicine practitioners, regulators and patients, as well as existing and potential employees, distributors, logistics service providers and external research partners, and our business and business prospects could be adversely affected.

Our efforts to increase our market share in our target markets in the PRC and Hong Kong may not be successful

We intend to introduce new CCMG products and Chinese healthcare products in our target markets in the PRC and Hong Kong in order to increase our market share and product sales. We may not have sufficient experience to operate in our target markets, particularly those in the PRC, and could face considerable challenges in our expansion, including:

- burdens or cost of complying with local laws and regulations, including unexpected changes in regulatory requirements;
- lack of familiarity with local business practices;
- shortage of personnel with both necessary language skills and technical capabilities;
- volatility in currency exchange rates;
- changes in political, regulatory or economic conditions in Hong Kong and the PRC;
- economic slowdown in Hong Kong and the PRC;
- actual market demand for our CCMG products and Chinese healthcare products;
- foreign exchange controls or other regulatory restrictions that might prevent any of our group companies from repatriating income earned in the PRC; and
- greater difficulty in collecting accounts receivables.

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

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

Our future growth and prospects are dependent on our ability to successfully develop new Chinese medicine products, applications of existing products, product formulation, or production methods or techniques, which can be affected by many factors beyond our control. These include failure to meet the clinical safety, efficacy or other standards and requirements during testing and clinical trials, or failure to obtain regulatory approvals, including the approvals from CFDA and Provincial FDAs, on time or at all. We commit substantial efforts, funds and other resources to our research and development, through both our strong in-house research and development team and collaborations with external research partners around the world. Please refer to the subsection headed “Business — Research and Product Development” in this prospectus for further details. For the years ended 31 December 2012, 2013 and 2014, our research and development costs were HK\$8.3 million, HK\$16.1 million and HK\$16.1 million, representing 2.9%, 4.7% and 4.4% of our total revenue for the same periods, respectively mainly in relation to our research and product development activities. However, the new product development process is complex, uncertain, time-consuming and costly. If our research and development activities do not result in the successful development of any new Chinese medicine products, applications of existing products, product formulation, or production methods or techniques, we will not be able to recover the related costs of such research and development activities and will need to write-off the relevant capitalised development costs, which could materially and adversely affect our financial condition and results of operation.

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

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

We collaborate with scientists and professors at various research institutions, universities and hospitals around the world in the research and development of Chinese medicine products. We jointly developed some of our best selling products (such as PuraGold® (金靈芝)® and Oncozac® (安固生)®), with our research partners. We have benefited and expect to continue to benefit from the resources, technologies and experience of our research partners through such collaborations. Please refer to the

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subsection headed “Business — Research and Product Development” in this prospectus for further details. These scientists and professors are not, however, our employees and may have other commitments that limit their availability to us. If a conflict of interest arises between their work for us and their work for another entity, we may lose their services. A termination of our collaboration with any of our research partners or failure of our research partners to meet the required quality standards and timetables set forth in their research agreements with us could increase our research and development costs, delay the research and development process and reduce our efficiency in new product development.

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

Substantially all of our PCM products must undergo an expensive and lengthy clinical trial process before they can be introduced into the market for commercial sale

We currently have two new PCM products under development: Ren Shu Chang Le Granules (仁術腸樂顆粒) for the treatment of irritable bowel syndrome (治療腸易激綜合症) and Puerarin Phospholipids Complex Capsules (葛根素磷脂複合物膠囊) for the treatment of cardiovascular disorders. Generally, we have to provide regulatory authorities with clinical data that demonstrates the safety and efficacy of our PCM products in order to obtain approval for commercial sale. The clinical trial process, which involves preclinical testing and clinical development, can take several years to complete and the outcome of such process is uncertain. Clinical trials for these two new PCM products are expected to commence in 2015.

Product testing can fail at any stage of the clinical trial. Success in preclinical testing and early clinical trials does not guarantee that later clinical trials will be successful, and interim results of trials do not necessarily predict final results. It is not unusual for companies to suffer significant setbacks in advanced clinical trials, even after they have obtained promising results in earlier trials. Preclinical and clinical data can be interpreted in different ways, which could delay, limit or prevent further testing or regulatory approval.

Further, the duration of a clinical trial generally varies substantially with the type, complexity, novelty and intended use of the product candidate. Clinical trials may be delayed or need to be repeated for many reasons, such as negative or inconclusive results, adverse medical events, ineffectiveness of the study compound, inability to manufacture sufficient quantities of the compound for use in clinical trials and failure of the regulatory authority to approve our clinical trial protocols. Our clinical trials may be suspended at any time if we or the regulatory authorities believe the patients participating in our studies are exposed to unacceptable health risks.

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We do not know whether planned clinical trials will begin on time or whether any of our clinical trials will be completed on schedule, or at all. The additional development costs of the two new PCM products are estimated to be HK\$31.4 million before we can launch them in the market for commercial sales in accordance with the relevant PRC laws and regulations. Our product development costs would likely increase if we encounter delays in testing or obtaining approvals or if we need to perform more or larger clinical trials than planned. If the delays are significant, the commercial prospects for some of our products will be harmed, which will adversely affect our results of operations. Our business may also be adversely affected if after we devote significant time and expense on the clinical trial process, we are unable to obtain the approval for commercial sale of our product under development.

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

We are required to obtain certain permits and licenses from Hong Kong and PRC government authorities, including, among other things, the GMP certification for the manufacture of CCMG products from the CFDA. For details regarding certain key permits and licenses relating to our business operations in general, please refer to the subsection headed “Regulations — PRC Laws and Regulations Relating to Pharmaceutical Industry — Manufacture and Sale of Pharmaceutical Products” in this prospectus for further details. In addition to the GMP accreditation we obtained from the CFDA in the PRC, we have also obtained certification from the TGA in respect of our manufacturing facilities and we also have our products being verified and accepted by the USP, which put us at an advantageous position over other CFDA-licensed CCMG product manufacturers. Please refer to the subsection headed “Business — Production — GMP Accreditation” in this prospectus for further details. Our GMP, TGA and USP certifications and other required permits and licenses, however, are subject to periodic renewal and/or reassessment by the relevant authorities which may result in substantial compliance burdens and additional costs on our business. The relevant authorities may also conduct regular on-site inspections and examinations as part of the process of maintaining or renewing such permits, licenses and certifications.

While we have successfully passed the relevant inspections and renewed our PRC GMP, TGA and USP certifications and other required licenses and permits, the standards of such renewal or reassessment may change from time to time. We cannot assure you that we will be able to continue to successfully pass all required inspections and renew all of these permits, licenses and certifications. Any inability to renew any permits, licenses or certifications that are material to our operations could disrupt our business, and our reputation may be adversely affected as a result. Furthermore, if any change in the interpretation or implementation of the relevant regulations, or the promulgation of new regulations, requires us to obtain additional permits, licenses or certifications, we cannot assure you that we will be able to successfully obtain them. Even if we obtain such permits, licenses or certifications, there may be significant additional costs and expenses involved, which may adversely affect our results of operations.

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If outsourced contractors do not produce CCMG products and Chinese healthcare products meeting our specifications in sufficient volume at commercially acceptable prices, our sales volume and profit margins for these products could be adversely affected

We outsource certain parts of our CCMG product production process to third party manufacturers in the PRC. We also outsource the encapsulation and packaging of our Chinese healthcare products to third party manufacturers in Hong Kong. We have less control over these contractors' production processes than our own, and the risks of such products not being produced in the necessary volume or at the appropriate quality levels are higher than if we manufacture these products by ourselves. In addition, outsourced contractors may fail to maintain the necessary licenses, permits and certificates to carry out the manufacture of our products, breach their obligations to manufacture and deliver our products on a timely basis, or fail to abide by our quality control requirements. Quality issues related to products our outsourced contractors manufacture for third parties may also be imputed to the products they manufacture for us and adversely affect our reputation.

We currently appoint our outsourced contractors on an annual basis and expect to continue to do so in the future in order to comply with applicable PRC regulations. Consequently, we are exposed to the risks of increased pricing for our outsourced production and that we may be unable to appoint or re-appoint outsourced contractors in commercial acceptable terms each year. If the outsourced contractors we appoint do not produce CCMG products or Chinese healthcare products which meet our specifications in sufficient volume at commercially acceptable prices, or we are unable to appoint outsourced contractors to do so, we may have insufficient quantities of our products to meet customer demand, and our sales volume and profit margins for the relevant products could be adversely affected.

If our products are manufactured improperly or contaminated, our reputation, business, financial condition and results of operation may be materially and adversely affected

We are exposed to risks inherent in the production, packaging, sale and marketing of our products, such as unsafe, ineffective, defective or contaminated products, improper filling of products, and insufficient or improper labelling of products. If any of these happens, we may be subject to product recall or withdrawal, revocation of regulatory approvals for such products or the relevant manufacturing facilities, and exposure to lawsuits relating to such products.

We are subject to the laws and regulations of Hong Kong and the PRC that govern the handling, transportation, production, use, storage, disposal and sale of substances that are or could be classified as toxic or hazardous substances. Some risks of environmental and property damages and environmental liabilities (such as, potential clean-up liability relating to currently or formerly owned or operated sites or third-party disposal sites, and liabilities relating to the exposure to hazardous substances), is inherent in our operations and our products. Any failure by us to comply with the applicable government regulations could also result in product recalls or impositions of fines and restrictions on our ability to carry out or expand our operations. We may also have to recall our products and/or cease the relevant manufacturing and distribution, which would increase our costs and reduce our sales.

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

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

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

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

We are subject to product liability claims with respect to our CCMG products and Chinese healthcare products. Such claims may arise if any of our products are deemed or proven to be unsafe, ineffective, defective or contaminated or when we are alleged to have engaged in such practices as improper filling of prescriptions, insufficient or improper labelling of products, provision of inadequate warnings or insufficient or misleading disclosures of side effects, or unintentional distribution of counterfeit medicines. In the event that the use or misuse of any product manufactured and/or distributed by us results in personal injury or death, product liability and/or indemnity claims may be brought against us, in addition to our product recalls, and the relevant regulatory authorities in Hong Kong and the PRC may close down some of our related operations and take administrative actions against us.

During the Track Record Period, we had not received any material product liability claims from third parties in relation to the use of our CMG and Chinese healthcare products. We cannot guarantee that such claims will not be filed against us in the future. A substantial claim or a substantial number of claims against us, if successful, would have a material adverse effect on our reputation, business, financial condition and results of operations. Although we have product liability insurance for most of our products, our coverage may not be sufficient to cover the amount of damages. If any of our products are alleged to be harmful, we may experience reduced sales of our products and may have

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to recall these products from the market. Any claims against us or any product recalls, regardless of merit, can strain our financial resources and consume the time and attention of our management. If any claims against us are successful, we may incur monetary liabilities, and our reputation may be severely damaged.

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

Our principal raw materials are raw Chinese herbs, cost of which account for a significant portion of our total costs of sales. For the years ended 31 December 2012, 2013 and 2014, our costs of raw materials were approximately HK\$59.7 million, HK\$71.5 million and HK\$82.6 million, respectively, representing approximately 57.8%, 58.1% and 61.5% of our total cost of sales for the same periods. As the majority of raw Chinese herbs are agricultural products, their supply and market prices vary from year to year depending on the harvest in the relevant years. The availability and market prices of raw Chinese herbs may also be adversely affected by factors beyond our control, such as weather conditions, natural disasters or a sudden surge in demand. In addition, as we purchased raw Chinese herbs mainly from third party suppliers, we are also vulnerable to price fluctuations and supply shortage resulting from any speculating or price manipulation activities engaged by these suppliers. We cannot assure you that we will be able to renew relevant contracts with all our existing suppliers and that they will continue to supply materials to us on terms and conditions commercially acceptable to us in the future. In addition, we keep relatively higher levels of inventory for certain raw Chinese herbs, such as Lingzhi (靈芝), which are harder to procure. We cannot assure you that we will be able to pass on any increase in raw material costs to our customers. Some of our customer contracts require the prices of our products unchanged during the term of the contracts. Significant increases in raw material prices would have a direct and negative impact on our gross profit margins. Ultimately, we may need to raise our product prices to recover the higher raw material costs and maintain our gross profit margins, which may lead to lower customer demand for our products. Even if we are able to pass increased raw material costs to our customers, there is typically a lag between the actual cost increases of raw materials and the corresponding increase in the prices of our products. If we are unable to fully pass increases in our raw materials costs to our customers, our gross profit margins and profitability would be adversely affected.

If the quality of any raw materials fails to meet our standards or any raw materials contain defects or harmful substances and we fail to detect such failures in our quality checks, the quality of our products can be compromised. Although our quality control department sample tests the Chinese herbs provided by the suppliers to ensure such raw materials meet our stringent quality standards, we cannot assure you that any quality problems with raw materials will not occur in the future.

Our centralised procurement platform may not help us achieve anticipated savings

We process all of our procurement needs through a centralised procurement platform. We conduct a formal price tendering process for all our raw material procurement by inviting tenders from a number of suppliers based on the types and quality of raw Chinese herbs which they can provide and their production bases. We choose only those suppliers who can meet our quality standards at competitive prices. We believe our centralised procurement platform can reduce our cost of sales as

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a result of economies of scale in our procurement process. Please refer to the subsection headed “Business — Procurement and Suppliers” in this prospectus for further details on our price tendering process. However, we may not be successful in achieving the anticipated economies of scale because of the increases in the complexity of tracking inventory, inventory handling, transportation costs and burdens on our supply chain management. Furthermore, we may not be successful in achieving the expected cost savings from the renegotiation of certain supplier contracts due to the nature of raw Chinese herbs covered by those contracts and the market position of the related suppliers. If we cannot successfully reduce our costs through centralising procurement, our business, profitability and results of operations may be adversely affected.

We may not be able to successfully implement our business plans

Details of our business strategies are set out in the subsection headed “Business — Our Business Strategies” in this prospectus. The successful implementation of our business strategies depends on a number of factors including, among others, continued growth of the TCM market in Hong Kong and the PRC, the availability of funds, market competition and relevant government policies. We cannot assure you that our business strategies can be implemented successfully as we have contemplated, or at all. Any delays or failure to successfully implement these business strategies could result in the loss or delayed receipt of revenue, an increase in financing costs or the failure to grow our business. Implementing our business strategies also involves significant expenses, including sales and marketing costs and the cost of acquiring additional property, plant and equipment. Unexpected expenses could prevent us from implementing our business strategies within our budget or at all, which may materially and adversely affect our business, financial condition and results of operations.

We rely on short-term borrowings to fund our operations and our net current liability positions could limit our ability to fund our business operations and expansion

We use short-term borrowings to support the growth and operations of our business. In particular, we require significant capital to maintain, operate and expand our manufacturing facilities, conduct research and development activities and expand our sales and distribution network. As at 30 April 2015, our current liabilities include short-term bank loans of HK\$158.0 million and bank overdrafts of HK\$19.1 million. These borrowings are used mainly to fund our working capital needs, which increased over the Track Record Period primarily due to our business growth and increasing working capital needs. In addition, as at 31 December 2012 and, 2013, we had net current liabilities of approximately HK\$50.7 million and, HK\$28.2 million, respectively, mainly due to (i) increased short-term bank borrowings for our expanded operational scale; and (ii) increased capital expenditure for the purchases of non-current assets (such as land and building). Moreover, we had net current liabilities of approximately HK\$2.6 million as at 30 April 2015, whereas we had net current assets of approximately HK\$23.0 million as at 31 December 2014. Such change was primarily attributable to our remaining prepayment of approximately HK\$18.7 million, which was made in the four months ended 30 April 2015, for the acquisition of a land parcel to expand our manufacturing facilities in Nanning. As at 30 April 2015, the total prepayment for such land acquisition amounted to HK\$28.4 million. In connection with the prepayment, our cash and cash equivalents decreased and as the acquisition for the land was classified as non-current asset, we incurred net current liabilities as at 30 April 2015. The significant level of short-term borrowings and our current liability position could limit our ability to secure our funding for our operations and future expansion. Our ability to continue

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to obtain financing is subject to a number of factors. Such factors include our future financial condition, operating results and cash flows, as well as the economic conditions in Hong Kong and the PRC, costs of financing including changes in interest rates, prevailing conditions in the capital market and regulatory requirements. Should we be unable to pay off or refinance our short-term borrowings upon maturity at terms commercially acceptable to us or at all, we may have to reduce our inventories and capital expenditures and delay our plans to expand our sales and distribution network, which in turn may adversely affect our business, financial condition and results of operations.

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

We consider a number of factors when we manage the inventory levels for our manufacture and sale operations, including costs of holding inventory, our product portfolio, the preferences of our customers and patients, and our goal of prompt delivery of products in sufficient quantities in response to our customers' requests. For the years ended 31 December 2012, 2013 and 2014, our average inventory turnover days were 276, 211 and 211, respectively. The volatile economic environment and fast-evolving demands and preferences of our customers have made accurate projection of inventory levels increasingly challenging. Inventory levels in excess of customer demand may result in inventory obsolescence, a decline in inventory values, significant inventory write-downs, or expiration of products. High inventory levels may also require us to commit substantial capital resources, preventing us from using them for other important business purposes. Conversely, if we underestimate customer demand for our products or if our suppliers fail to provide raw materials to us in a timely manner, we may experience inventory shortages. Such inventory shortages might result in unfilled customer orders and have a negative impact on customer relationships. We cannot assure you that we will be able to maintain proper inventory levels for our operations and such failure may have an adverse effect on our business, financial condition, results of operations and profitability.

Delays in collecting receivables from our distributors or direct sales customers could have a material adverse effect on our business, financial condition and results of operations

Our sales are generally either on credit or payable on delivery depending on the credibility and relationship with our distributors and direct sales customers. With respect to the sale of our CCMG products in the PRC, we typically grant one to six months credit term to our direct sales customers, which are normally state-operated hospitals, and we typically require cash on delivery from our newly appointed distributors and small distributors. With respect to the sale of our products in Hong Kong, we typically extend credit of 30 days to certain customers. As at 31 December 2012, 2013 and 2014, our trade and bills receivables were HK\$67.3 million, HK\$98.7 million and HK\$103.1 million, respectively, of which HK\$6.4 million, HK\$15.0 million and HK\$19.3 million, respectively, had been past due over three months. The balance of our trade and bills receivables over three months past due primarily comprise of direct sales made to state-owned hospitals and medical institutions in the PRC which generally have longer payment records due to longer internal approval process. We are of the opinion that no provisions for impairment is necessary in respect of these past due amounts as the customers have good credit history. However, we do not hold any collateral or other credit enhancements over these balances. Our liquidity and cash flows from operations may be materially and adversely affected, if our receivable cycles or collection periods lengthen further, or if we encounter a material increase in defaults of payment of our receivables from customers. Should these

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events occur, we may be required to obtain working capital from other sources, such as from third party financing, in order to maintain our daily operations, and such financing from outside sources may not be available at commercially acceptable terms or at all.

Our sales of CCMG products in the PRC is subject to seasonality and our results of operations are subject to fluctuations

Our business is subject to risks associated with seasonality. In the PRC, the peak season of the sales of our CCMG products is generally in the fourth quarter of each year and the low season is in the first quarter of each year. There is generally higher demand for our CCMG products in the PRC in the fourth quarter of each year because many customers tend to build up their stock of Chinese medicine products in advance before the Chinese New Year, when most of the business in the PRC is closed. Sales of our CCMG products in the PRC may also fluctuate during the course of a financial year for a number of other reasons. For example, we generally experience higher sales during and after our marketing and promotional campaigns or the period of new product launches. Due to these seasonal factors, our CCMG product sales in the PRC may fluctuate from period to period, and comparison of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of our performance. In addition, these seasonal consumption patterns may cause our operating results and financial condition relating to our CCMG product sales in the PRC to fluctuate from period to period.

Our success and business operations are largely dependent on our senior management team and key research and development personnel, and our business and prospects may be severally disrupted if we lose their services

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

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We may not be able to maintain or obtain approvals from the relevant Provincial FDAs for the clinical use of our CCMG products in approved hospitals and medical institutions in the PRC

As a CFDA-approved manufacturer of CCMG products, we are only required to file a list of clinical hospitals using our CCMG products with the relevant Provincial FDA according to the CCMG Regulations. The different Provincial FDAs, which oversee local hospitals and medical institutions within their jurisdictions, interpret the CCMG Regulations in different ways and implement the CCMG Regulations in an inconsistent manner. As a result of such confusion, we inadvertently believed that it was not compulsory to obtain approvals for the clinical use of our CCMG products under the CCMG Regulations. For the years ended 31 December 2012, 2013 and 2014, sales of our CCMG products which we conducted without having first obtained the approval from the relevant Provincial FDAs accounted for approximately 9.8%, 7.4% and 8.8% of our total revenue for the same periods, respectively. Please refer to the subsection headed “Business — Regulatory Compliance — Systematic Non-compliance Incidents” in this prospectus for further details. There still exists some uncertainty in respect of the PRC laws and regulations relating to the relevant Provincial FDAs’ oversight and administration of the clinical use of CCMG products. Based on the results from clinical use of CCMG products, the CFDA or Provincial FDAs may impose higher standards on our products, or, revoke or refuse to grant and/or extend approvals which are required for us to conduct our business. Any future change in the interpretation or implementation of applicable laws and regulations in the PRC may result in more stringent requirements, stricter enforcement, increased fines and penalties for non-compliance, increased compliance costs, more stringent government assessments, and heightened responsibilities for the CFDA-licensed CCMG product manufacturers as well as their directors and employees. If any of the activities carried out by us fails to meet the requirements of current or future applicable rules, regulations and standards in the PRC, or if we fail to obtain the grant or renewal of the required approvals or encounter significant delays in obtaining or renewing the required approvals, from the relevant Provincial FDAs, such failure or delay could have material adverse effects on our business, financial position and results of operations.

We may be required to make additional social insurance and housing provident fund contributions for our PRC-based employees

We are required to make social insurance and housing provident fund contributions for our PRC-based employees under the relevant laws and regulations. During the Track Record Period, we did not make full contributions to the social insurance schemes and the housing provident funds for these employees. As at 31 December 2014, we made provisions for the underpaid amounts of social insurance contribution and housing provident fund contribution of approximately HK\$1.7 million and HK\$2.0 million, respectively. Please refer to the subsection headed “Business — Regulatory Compliance — Systematic Non-compliance Incidents” in this prospectus for further details.

We cannot assure you that we will not be subject to any order to pay the underpaid amounts of social insurance and housing provident fund contribution within a stipulated period in the future. Nor can we assure you that there is no, or will not be, any claim or employee complaint in relation to our contributions to the social insurance schemes or housing provident funds against us. In addition, we may incur additional expenses to comply with the relevant laws and regulations. In the event that any of the above occurs, our business and financial position may be adversely affected.

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Failure to complete registration of lease agreements in respect of some of our leased properties in the PRC

As at the Latest Practicable Date, our PRC subsidiary leased five properties to be used as warehouses or offices. The landlords of four of these properties did not complete the registration of lease agreements with the relevant housing administrations in the PRC. In respect of three of these leased properties, the landlords have obtained building ownership certificates but have not registered the relevant lease agreements. In respect of the remaining one leased property which our PRC subsidiary is using as warehouse, the landlord is required to complete the final inspection and acceptance procedure (竣工驗收備案) before it is able to obtain the relevant building ownership certificate. Please refer to the subsections headed “Business — Regulatory Compliance — Systematic Non-compliance Incidents” in this prospectus for further details.

We may be subject to fines imposed by the housing administrations for failure to complete registration of the lease agreements. Under the PRC laws, we and the landlords may be exposed to a fine ranging from RMB1,000 to RMB10,000 for each lease agreement which has not been registered with the relevant housing administrations. Moreover, in respect of the lease property for which the landlord has not obtained the relevant building ownership certificate, in the event that the landlord fails to complete the final inspection and acceptance procedure within a requested period of time, the leased property should not be leased and the relevant lease agreement would be deemed as invalid. Upon occurrence of such event, we may need to seek an alternative property to be used as warehouse in a timely manner and incur additional costs for relocation. Under any of the above circumstances, our business, financial conditions and results of operations may be adversely affected.

Failure to comply with applicable anti-corruption laws could subject us to penalties and other adverse consequences

We operate in the TCM industry and sell our CCMG products and Chinese healthcare products directly to hospitals, Chinese medicine clinics, medical institutions and private Chinese medicine practitioners, as well as pharmacy stores in Hong Kong and the PRC. We are subject to anti-corruption laws of Hong Kong, the PRC and other jurisdictions, which generally prohibit companies and intermediaries from engaging in any bribery, corruption and fraudulent activities (including, among other things, improper payments to public officials and industry players for the purposes of obtaining or retaining business or other benefits, and improper payments or other form of bribes to hospitals and doctors in connection with the procurement or prescription of pharmaceutical products).

We may not be able to effectively manage our employees, as the compensation of our sales and marketing personnel is partially linked to their sales performance. In addition, we have limited ability to manage the activities of our distributors and third party consultants which we have engaged to develop and maintain customer relationships as well as to promote our products and brand name. Save that one former consultant is currently a director of two of our subsidiaries, all of these distributors and third party consultants are independent from us. We cannot assure you that our employees, distributors or third party consultants will not violate the anti-corruption laws of Hong Kong, the PRC and other jurisdictions. If our employees, distributors or third party consultants violate anti-corruption

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laws, we could be deemed responsible for their actions and we could be subject to regulatory investigations, or even be required to pay damages or fines, which could materially and adversely affect our financial condition and results of operations.

Failure to adequately manage our employees, distributors or third party consultants, or their non-compliance with relevant employment, distribution or consulting agreements could harm our corporate image among Chinese medicine practitioners and patients and disrupt our sales, resulting in a failure to meet our sales goals. Furthermore, we could be held liable for actions taken by our employees, distributors or third party consultants, including any violations of applicable laws and regulations, or anti-corruption practices, in connection with the marketing or sale of our products. Moreover, the government authorities in Hong Kong and the PRC have recently enhanced their efforts to combat corruption, illegal or improper business practices in the healthcare sector, which could subject our employees, distributors or third party consultants to heightened scrutiny. While we have internal controls and procedures in place to monitor internal and external compliance with anti-corruption laws, regulations, policies and practices, we cannot assure you that such internal controls and procedures will always protect us from penalties that may be imposed by the relevant authorities in Hong Kong and the PRC due to violations committed by our employees, distributors or third party consultants. If any of them, either knowingly or unknowingly, engages in corruption or improper conduct in connection with the marketing or sale of our products, such conduct could harm our reputation and expose us to regulatory investigations, costs and liabilities. In addition, our brand and reputation, our sales activities and the price of our Shares could be adversely affected if we become the target of any negative publicity or governmental investigations or claims as a result of actions taken by our employees, distributors or third party consultants.

We may from time to time become a party to litigation, legal disputes, claims or administrative proceedings that may materially and adversely affect us

If we become a publicly listed company, we may from time to time become a party to various litigation, legal disputes, claims or administrative proceedings arising in the ordinary course of our business. Such negative publicity may damage our reputation and adversely affect the image of our brands and products. In addition, ongoing litigation, legal disputes, claims or administrative proceedings may distract our management's attention and consume our time and other resources. Furthermore, any litigation, legal disputes, claims or administrative proceedings which are not of material importance may escalate due to the various factors involved (such as the facts and circumstances of the cases, the likelihood of winning or losing and the monetary amount at stake). The parties concerned continue to evolve in the future, and certain factors may result in these cases becoming of material importance to us. Finally, if any verdict or award is rendered against us, we could be required to pay significant monetary damages, assume relevant liabilities, and suspend or terminate the related business operations. Consequently, our business, financial condition and results of operations may be materially and adversely affected.

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If we are unable to protect our intellectual property, our business, financial condition and results of operations could be materially and adversely affected

Our success depends, to a large extent, on our ability to protect our intellectual property rights and technology know-hows. We rely on a combination of patents, trademark registrations, trade secret laws, as well as non-competition agreements and confidentiality agreements with our employees to protect our intellectual property rights. Please refer to the subsection headed “Business — Intellectual Property Rights” for further details on our patent and trademark registration and applications. The process of seeking patent protection can be lengthy and expensive, and we cannot assure you that our pending patent applications, or any patent applications in the future in respect of other products, will result in issued patents or that any patents issued in the future will be able to provide us with meaningful protection or commercial benefits. Our competitors may independently develop proprietary technology similar to ours, introduce counterfeits of our products, misappropriate our proprietary information or processes, infringe on our patents, brand name and trademarks, or produce similar products that do not infringe on our patents or successfully challenge our patents. Our efforts to defend our patents, trademarks and other intellectual property rights may be unsuccessful against competitors or other violating entities; we may be unable to identify any unauthorised use of our patents, trademarks and other intellectual property rights and may not be afforded adequate remedies for any breach. In particular, in the event that our registered patents and our applications do not adequately describe, enable or otherwise provide coverage of our technologies, samples and products, we would not be able to exclude others from developing or commercialising these technologies, samples and products.

In addition, we rely on trade secrets and proprietary know-how to protect our intellectual properties. We have generally entered into confidentiality agreements with our key research and development personnel, consultants, external research collaborators and other advisors. These agreements provide that all confidential information developed or made known to the individual during the course of the individual’s relationship with us is to be kept confidential and not disclosed to third parties except in circumstances specified in the agreements. In the case of employees, the agreements provide that all of the technology which is conceived by the individual during the course of employment is our exclusive property. However, these agreements may not provide meaningful protection or adequate remedies in the event of unauthorised use or disclosure of our proprietary information. In addition, it is possible that third parties could independently develop information and techniques substantially similar to ours or otherwise gain access to our trade secrets.

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

We are currently involved in a trademark litigation dispute with a third party in the U.S. for its infringement of our registered trademark “Purapharm”. We may also encounter future litigation by third parties based on claims that our products or activities infringe the intellectual property rights of others or that we, our employees or consultants have misappropriated the trade secrets of others. It is difficult to predict how such disputes would be resolved. The prosecution and defence of intellectual property rights are costly and will divert technical and management personnel from their normal

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responsibilities. We may not prevail in any such litigation or proceedings. An adverse decision with respect to any litigation or proceedings against us, resulting in a finding of non-infringement by others or invalidity of our trademarks, may result in the use by third party companies of brand names substantially similar to ours.

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

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

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

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

Certain Chinese medicine products distributed or sold in the TCM market, particularly in the PRC, may be counterfeit, as these products were manufactured without proper licenses or approvals and fraudulently mislabelled with respect to their content and/or manufacturer. Such counterfeit Chinese medicine products are generally sold at lower prices than authentic products due to their lower production costs, and in some cases are very similar in appearance to the authentic products. Counterfeit Chinese medicine products may or may not have the same chemical content as their authentic counterparts. The regulatory control and enforcement systems with respect to counterfeit Chinese medicine products in the PRC are not able to completely eliminate the manufacture and sale of counterfeit products. Any illegal sale of counterfeit products by others under our brand names may subject us to negative publicity, reputational damage, fines and other administrative penalties or even

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result in litigation against us. Moreover, from time to time, the appearance of counterfeit Chinese medicine products, products of inferior quality and other unqualified products in the healthcare markets in the PRC may reinforce the negative image of all Chinese medicine products, Chinese medicine manufacturers and distributors among Chinese medicine practitioners, patients and consumers, and may severely harm the reputation and brand names of companies like us.

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

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

We maintain certain insurance coverage in line with industry practices in Hong Kong and the PRC. Please refer to the subsection headed “Business — Insurance” in this prospectus for further discussion. However, there may be circumstances under which certain types of losses, damages and liabilities are not covered by our insurance policies. There are also certain types of losses, such as those resulting from wars, acts of terrorism, or natural disasters, for which we cannot obtain insurance at a reasonable cost at all. Should an accident, natural disaster or terrorist act occur, or should an uninsured loss or a loss in excess of insured limits occur, we could suffer from financial losses, as well as damage to our reputation. Any material loss not covered by our insurance could materially and adversely affect our business, financial condition and results of operations.

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

We are subject to the laws, rules and regulations of Hong Kong and the PRC concerning the discharge of waste water, production emissions and solid wastes during our manufacturing process. In addition, we are required to obtain clearances and authorisations from the relevant authorities in Hong Kong and the PRC for the treatment and disposal of these wastes. We were not subject to any material claims or penalties in relation to environmental protection or involved in any environmental accidents or fatalities during the Track Record Period. However, we cannot assure you that we will be able to comply fully at all times with applicable environmental regulations in Hong Kong and the PRC. Any violation of these regulations may result in substantial fines, criminal sanctions, revocations of operating permits, shutdown of our facilities and obligations to take corrective measures. Furthermore, the cost of complying with current and future environmental protection laws, rules and regulations and the liabilities which may potentially arise from the discharge of our production wastes may materially increase our costs as well as materially decrease our profit.

Moreover, an amended Environmental Protection Law was passed by the Standing Committee of the PRC National People’s Congress on 24 April 2014 and became effective on 1 January 2015. The newly promulgated Environmental Protection Law imposes more stringent punishment on any violation of environmental protection law, thus the amount and timing of future environmental expenditures may vary substantially from those incurred in the past. If the PRC government tightens

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its supervision and administration on environmental protection, we may need to incur substantial capital expenditures to comply with environmental laws and regulations, including the costs of installing, replacing or upgrading our equipment related to pollution control, the use, storage, handling and disposal of hazardous materials and chemicals and the costs of operational changes to limit any adverse impact of our operations on the environment. In addition, environmental liability insurance is not commonly available in the PRC. Consequently, any significant environmental liability claims, if successfully brought against us, could have a material adverse effect on our business, financial condition and results of operations.

We rely on information systems in managing our operations and any system failures or deficiencies of our information systems may have an adverse effect on our business, financial condition and results of operations

We make use of information systems, to record, process, analyse and manage our operational and financial data. We use these systems to, among other things, monitor the daily operations of our business (such as the receipt and processing of orders), and maintain operating and financial data for the compilation of our management and financial reports. We cannot assure you that our information systems will always operate without interruption or malfunction. Any damage by unforeseen events or system failure which cause interruptions to the input, retrieval and transmission of data or increase in the service time, could disrupt our normal operations. We cannot assure you that we can effectively carry out our disaster recovery plan to handle the failure of our information systems, or that we will be able to restore our operational capacity in a timely manner to avoid disrupting our business.

Our failure to address these problems could result in our inability to perform, or prolonged delays in performing, critical business operational functions, the loss of key business data, or our failure to comply with regulatory requirements, which could materially and adversely affect our business, financial condition and results of operations.

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

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

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RISKS RELATED TO THE TCM INDUSTRY

We operate in a highly competitive market, and our business, financial condition and results of operation may be adversely affected if we are not able to compete effectively

We face intense competition in both the CCMG product and Chinese healthcare product markets in Hong Kong and the PRC. The Chinese healthcare product market is highly fragmented as there is a wide range of product offerings in Hong Kong and the PRC markets and the entry barrier to this industry is relatively low. On the other hand, we face less competition in the CCMG product market as we are one of the only five manufacturers licensed by the CFDA to manufacture and sell CCMG products in the PRC and the entry barriers to the CCMG product market are relatively higher. Please refer to the subsection headed “Business — Competition” in this prospectus for further details. For the years ended 31 December 2012, 2013 and 2014, sales of our CCMG products accounted for approximately 84.7%, 89.7% and 88.7% of our total revenue for the same periods, respectively. In addition, although our CCMG products occupy the majority of market share in Hong Kong, we are relatively small in the PRC market in terms of sales compared to the other four CCMG product manufacturers which are headquartered in the PRC. We may lose our market share in Hong Kong and the PRC CCMG product markets, if more manufacturers are licensed by the CFDA to manufacture and sell CCMG products in the PRC and other CFDA-licensed CCMG product manufacturers expand their businesses in Hong Kong. Furthermore, we might also have to lower our CCMG product prices, or even be involved in a price war with an increasing number of CFDA-licensed CCMG product manufacturers. Under any of such circumstances, our results of operation, financial performance and business prospectus will be adversely affected.

We cannot assure you that we will be able to remain competitive by distinguishing our products from our competitors, or by expanding our production capacity, marketing and sales team or distribution network, nor can we assure you that we will be able to maintain or increase our existing market shares in the CCMG product and Chinese healthcare product markets in Hong Kong and the PRC. Some of our competitors in each of the CCMG product and Chinese healthcare product markets in Hong Kong and the PRC may have more financial resources, greater manufacturing capacity, pricing flexibility, marketing capability and experience than we do and may choose to invest more in the product and technology development, service offering, facilities and equipment, or sales and marketing. As a result, our competitors in the CCMG product and Chinese healthcare product markets may succeed in developing products that are more effective, less costly or with a shorter time-to-market than ours. We must continuously keep abreast of the latest development in the TCM industry in order to remain competitive. We also face competition for marketing, distribution and collaborative development agreements and for establishing relationships with academic and research institutions. In addition, academic institutions, government agencies and other public and private research organisations may also conduct research, seek patent protection and establish collaborative arrangements for discovery, research and marketing of products similar to ours. If we are unable to successfully compete with these companies and institutions, our business, financial condition and results of operations may be materially and adversely affected.

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The TCM industry is heavily regulated, and any failure to obtain and maintain the required licenses, approvals and permits could impair our ability to conduct our business

The TCM industry is heavily regulated. We are required to obtain and maintain different licenses, approvals and permits for the production, import and export, and sale and distribution of our Chinese medicine products in the normal course of business in Hong Kong and the PRC. Please refer to the subsection headed “Business — Permits, Licenses and Approvals” in this prospectus for further details. In Hong Kong, the manufacture, packaging, labelling, sale and distribution of Chinese medicine products are subject to regulation by several Hong Kong authorities. Please refer to the subsection headed “Regulations — Laws and Regulations Relating to our Business Operations in Hong Kong” in this prospectus for further details. In the PRC, we are governed by various local, regional and national regulatory regimes in all aspects of our operations, including certification requirements and procedures for the manufacture and sale of CCMG products, operating and safety standards, and environmental protection. Please refer to the subsections headed “Regulations — PRC Laws and Regulations Relating to Pharmaceutical Industry — Manufacture and Sale of Pharmaceutical Products; PRC Laws and Regulations Relating to Healthcare Food; and PRC Laws and Regulations Relating to Environmental Protection” in this prospectus for further details.

We may be subject to regular inspections, examinations, inquiries or audits by the relevant authorities in Hong Kong and the PRC, and an adverse outcome of such inspections, examinations, inquiries or audits may result in the loss or non-renewal of the relevant permits, licenses and approvals by these authorities. Moreover, the criteria used in reviewing applications for, or renewals of permits, licenses and approvals may change from time to time, and we cannot assure you that we will be able to meet new criteria that may be imposed in order to obtain or renew the necessary permits, licenses and approvals. Many of such permits, licenses and approvals are material to the operation of our business, and if we fail to maintain or renew material permits, licenses and approvals, our ability to conduct our business could be materially impaired. Furthermore, if the interpretation or implementation of existing laws and regulations changes, or new regulations come into effect, so as to require us to obtain any additional permits, licenses or approvals not previously required to operate our business, we cannot assure you that we will not encounter material delays or difficulties in fulfilling the necessary conditions to obtain or renew all necessary permits, licenses and approvals for our business in a timely manner, or at all, in the future. If we fail to obtain or renew, or encounter significant delays in obtaining or renewing, the necessary permits, licenses and approvals for our business, our results of operations and financial performance may be adversely affected. Please also refer to the paragraph headed “—We may not be able to continue to fully comply with applicable GMP, TGA, USP or other regulatory requirements or renew our GMP, TGA and USP certifications and other permits and licenses which are material to our business; we may not be able to maintain or obtain approvals from the relevant Provincial FDAs for the clinical use of our CCMG products in approved hospitals and medical institutions in the PRC” in this section for further details on the relevant certifications and approvals for our business.

Registration of our products in the respective markets which we operate in or intend to expand to, may subject to local laws and regulations and procedures. We cannot assure you that we will be able to successfully register our products, if at all, and in time, to meet our business plan. In such

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events, our business, financial condition and results of operations may be materially and adversely affected. Moreover, additional or more stringent regulations of Chinese medicine products may be adopted from time to time in Hong Kong and the PRC. Such developments could require reformulation of certain products to meet new standards, recalls or discontinuance of certain products which we could not reformulate, increased documentation of the properties of certain products, additional or different labelling, additional scientific substantiation, adverse event reporting or other new requirements, or downward adjustment of our product prices. Any such developments could materially and adversely affect our business and results of operations.

Market receptiveness of Chinese medicine products may change

Our continued success depends on the popularity of and demand for Chinese medicine products. However, consumer preferences and demand may shift away from Chinese medicine products for various reasons including but not limited to:

- a change in consumers' belief that Chinese medicine products may be effective in achieving their claimed benefits;
- a general change in consumer preferences for Chinese medicine products as compared to other types of products that claim similar benefits, such as western medicines; and
- negative scientific research, findings or publicity regarding Chinese medicine products or other services associated with our products.

We believe that the Chinese medicine products market is highly dependent upon consumer perception regarding the safety, efficacy, level of side effects and quality of Chinese medicine products. Consumer perception of our products can be significantly influenced by scientific research or findings, national media attention and other publicity regarding related Chinese medicine products. We cannot assure you that future scientific research, findings or publicity will be favourable to any particular product, or consistent with existing research or findings which are favourable to that product. Future research reports, findings or publicity that are perceived as less favourable to our products could have a material adverse effect on the demand for our products, and consequently, our business, results of operations and financial condition could be adversely affected. Scientific research reports, findings or publicity, whether or not accurate, may associate illness or other adverse effects with the consumption of Chinese medicine products in general or that of our products or any similar products distributed by other companies, question the safety, efficacy or benefits of our or similar products, or claim that any of such products are unsafe or ineffective. Such adverse publicity could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed. Any such reports, findings or publicity may have a material adverse effect on the demand for our products, and our business, results of operation and financial condition.

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Furthermore, the relevant advertising laws, rules and regulations in markets where we operate may require advertising content to be fair and accurate, not misleading, and in full compliance with applicable laws and regulations. Violation of these laws or regulations may result in penalties, including fines, orders to cease dissemination of the advertisements, orders to publish an advertisement correcting the misleading information, and even criminal liabilities. In addition, we cannot assure you that regulators will not interpret such laws and regulations differently than we do, or that regulators will deem our advertising content to be fair and accurate. If we are found to have committed any additional violations, regulators may, among other things, discontinue certain of our advertising activities, or restrict us from broadcasting and/or publishing new advertisements of our products in a timely manner, and our business, financial condition and results of operations will be materially and adversely affected.

We believe that the TCM industry is characterised by changes in technologies, constant enhancement of industrial know-how and constant emergence of new products. Future technological improvements and continual product developments in the TCM industry may render our existing products obsolete or affect our viability and competitiveness. If we fail to respond to this environment by adjusting our product portfolio in a timely fashion, or if future products we manufacture and sell do not achieve adequate market acceptance, our business and profitability may be materially and adversely affected.

RISKS RELATED TO CONDUCTING BUSINESS IN HONG KONG AND THE PRC

Changes in the economic, political and social conditions in Hong Kong and the PRC could adversely affect our business and prospects

Substantially all of our assets are located, and all of our revenue is derived from our operations, in Hong Kong and the PRC. Accordingly, our business, financial condition, results of operations and prospects are, to a large extent, subject to the economic, political, social conditions and government policies in Hong Kong and the PRC.

Our business and prospects in Hong Kong could be negatively affected by a number of factors, including general economic conditions and demand for our CCMG products and Chinese healthcare products, consumer perception of Chinese medicine products, market competition, or success of the marketing and promotion of our products in Hong Kong. Any of these factors could materially adversely affect our business, product sales, results of operations and prospects in Hong Kong.

Moreover, the economy of the PRC differs from the economies of Hong Kong and most developed countries in many aspects, including but not limited to:

- the amount and degree of the PRC government's involvement;
- the growth rate and degree of development;
- the uniformity in implementation and enforcement of laws;

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- the content of and control over capital investment ;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilise market forces in the development of the PRC economy. The PRC economy has grown significantly in recent decades, though we cannot assure you that this growth will continue at the same pace, or at all. In addition, the PRC government continues to play a significant role in regulating industries and the economy through policy measures. We cannot predict whether changes in PRC economic, political or social conditions and the PRC laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and we expect them to be changed over time. Other political, economic and social factors may also lead to further adjustments of the PRC government's reform measures.

Our business, prospects and results of operations may be materially and adversely affected by policies of the Hong Kong and PRC governments, such as measures to control inflation and to tighten its monetary policies, and changes in the rates or methods of taxation. These actions, as well as future actions and policies of the Hong Kong and PRC governments, could cause a decrease in the overall level of economic activity, and in turn have a material and adverse effect on our business and financial condition.

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

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

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

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

The unavailability of government grants could adversely affect our business, financial condition and results of operations

We enjoy certain favourable regulatory treatments, particularly government grants, which are offered by local government authorities focusing on new product development and improvement of research facilities in relation to certain specific projects which are sponsored by governments. For the years ended 31 December 2012, 2013 and 2014, we received government grants and recognised the amount of HK\$4.6 million, HK\$4.3 million and HK\$3.7 million as other income in our consolidated statements of profit or loss, respectively. Please refer to the subsection headed “Financial Information — Discussion of Selected Items from the Consolidated Statements of Profit or Loss — Other Income and Gains” in this prospectus for further details. Government grants contributed significantly to our profitability during the Track Record Period. We will continue to seek government grants in the future.

It is in the local government’s sole discretion, subject to applicable PRC laws and regulations, to decide whether and when to provide government grants to us. We cannot assure you that we will be able to receive government grants in the future. Furthermore, although we believe that government grants are provided by local authorities in compliance with current policies, laws and regulations in the PRC, we face uncertainty relating to the availability of government grants due to potential unexpected changes in PRC policies, laws and regulations. The State Council recently released the Notice on Regulating Tax Benefits and Other Favorable Regulatory Treatments (《國務院關於清理規範稅收等優惠政策的通知》), intending to implement greater restrictions on favourable regulatory treatments. If we are unable to obtain or maintain government grants or any other favourable treatments in the future, we may experience decreases in profitability, and our business, financial condition and results of operations could be materially and adversely affected.

Any loss of or significant reduction in the preferential tax treatment we currently enjoy in the PRC or our non-compliance with the relevant PRC tax laws and regulations may negatively affect our financial condition

Before the EIT Law and its implementation rules became effective on 1 January 2008, as a foreign invested manufacturing company, PuraPharm Nanning, our PRC operating subsidiary in Nanning, Guangxi Zhuang Autonomous Region, was granted a preferential tax status in accordance

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with stipulations provided in the Income Tax Law of the PRC on Foreign-invested Enterprises and Foreign Enterprises (《中華人民共和國外商投資企業和外國企業所得稅法》). The EIT Law significantly curtails tax incentives granted to foreign-invested enterprises under the Income Tax law of the PRC on Foreign-invested Enterprises and Foreign Enterprises. According to the EIT Law and its implementation rules, (i) the income tax for both domestic and foreign-invested enterprises is imposed at a uniform rate of 25%; (ii) the foreign invested companies established before 16 March 2007 may continue to enjoy their existing tax incentives with an adjustment by certain transitional phase-out rules during a transitional period from 2008 to 2012; and (iii) subject to various qualification criteria, the new tax incentives are implemented for both domestic and foreign-invested enterprises. PuraPharm Nanning has been qualified as a “High and New Technology Enterprises” under the EIT and was entitled to the preferential EIT rate of 15.0% on the estimated assessable profits for the years ended 31 December 2012, 2013 and 2014. Furthermore, pursuant to the Notice on Policies and Regulations for the Promotion of the Opening and Development of Northern Gulf Economic Zone of Guangxi Zhuang Autonomous Region promulgated by the People’s Government of Guangxi Zhuang Autonomous Region (《廣西壯族自治區人民政府關於促進廣西北部灣經濟區開放開發的若干政策規定的通知》) and subsequent rules on the extension of the implementation of policies thereunder, from 1 January 2008 to 31 December 2013, an enterprise that is registered in Guangxi Zhuang Autonomous Region and qualified as a “High and New Technology Enterprise” is entitled to the exemption of a portion of income tax paid to local government. As PuraPharm Nanning met such requirements, it enjoys a further 40% deduction from the preferential EIT rate of 15.0%, or the preferential EIT rate at 9.0%, on the estimated assessable profits for the years ended 31 December 2012 and 2013. Our effective PRC income tax rates for the years ended 31 December 2012, 2013 and 2014 were 9.4%, 9.6% and 14.6%, respectively.

The qualification as a high and new technology enterprise is subject to a renewal every three years by the relevant authorities in the PRC. In order to maintain such qualifications and the preferential tax rates, we shall submit a review application to the relevant Science and Technology Commission agencies. We plan to apply for the extension of this preferential tax treatment before expiration. However, we cannot assure you that we will continue to be qualified for such status in the future. If we fail to maintain the high and new technology enterprise qualification or renew these qualifications when the relevant term expires, the applicable income tax rates would increase to 25%, which could have a material adverse effect on our financial condition and results of operations.

Expiration or elimination of, or other adverse changes to, any of these tax incentives could adversely affect our financial condition and results of operations. In addition, the PRC government from time to time adjusts or changes its policies on VAT, business tax and other taxes. Such adjustments or changes, together with any uncertainty resulting therefrom, could have an adverse effect on our business, financial condition and results of operations. Furthermore, we are subject to periodic examinations on our fulfilment of tax obligation under the PRC tax laws and regulations by PRC tax authorities. Although in the past we have acted in compliance with requirements under the relevant PRC tax laws and regulations in all material aspects and established effective internal control measures in relation to accounting regularities, we cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or actions that could adversely affect our business, financial condition and results of operations as well as our reputation.

RISK FACTORS

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

Some of our executive officers reside within the PRC, and a significant portion of our assets are located within the PRC. It may not be possible for investors to effect service of process upon us or those persons inside the PRC or to enforce against us or them in the PRC any judgements obtained from non-PRC courts. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts in the United States, Canada, the United Kingdom, Japan or most other western countries. However, judgements rendered by Hong Kong courts may be recognised and enforced in the PRC if the requirements set forth by the Arrangement on Mutual Recognition and Enforcement of Judgements in Civil and Commercial Matters by Courts of Mainland and of the Hong Kong Special Administrative Region Pursuant to Agreed Jurisdiction by Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) are met. Therefore recognition and enforcement in the PRC of judgements of a court in any of these jurisdictions other than Hong Kong in relation to any matter not subject to binding arbitration provisions may be difficult or impossible.

Changes in the PRC government policy on foreign investment in the PRC may adversely affect our business and results of operations

According to the latest version of the Foreign Investment Catalogue (《外商投資產業指導目錄》), which became effective on 10 April 2015, our business does not fall within the prohibited or the restricted category. Please refer to the subsection headed “Regulations — PRC Laws and Regulations relating to Foreign Investment” for further discussion on the applicability of such restriction on our business. As the Foreign Investment Catalogue is updated every few years, we cannot assure you that the PRC government will not change its policies in a manner that would render part or all of our business to fall within the restricted or prohibited categories. If we cannot obtain approval from relevant approval authorities to engage in a business which become prohibited or restricted for foreign investors, we may be forced to sell or restructure our business which have become restricted or prohibited for foreign investment. If we are forced to adjust our corporate structure or business line as a result of changes in government policy on foreign investment, our business, financial condition and results of operations may be adversely affected.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiary

In utilising the proceeds from the Global Offering or any further offering, as an offshore holding company of our PRC subsidiary, we may make loans to our PRC subsidiary, or we may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiary in the PRC to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also decide to finance our PRC subsidiary through capital

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contributions. These capital contributions must be approved by the MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations or approvals, our ability to use the proceeds of the Global Offering and to capitalise our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

SAFE regulations may limit our ability to finance our PRC subsidiary effectively and affect the value of your investment and may make it more difficult for us to pursue growth through acquisitions

If we finance our PRC subsidiary through overseas shareholder loans or additional capital contributions, registration with and/or approval of PRC government authorities are required. Any overseas shareholder loans to our PRC subsidiary must be registered with the local branch of SAFE as a procedural matter and such loans cannot exceed the difference between the total amount of investment our PRC subsidiary is approved to make under the relevant PRC laws and its registered capital. In addition, the amounts of the capital contributions are subject to the approval of the MOFCOM or its local counterpart. On 30 March 2015, SAFE promulgated the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》), or Circular 19, pursuant to which, the foreign exchange capital of foreign-invested enterprises shall be subject to the discretionary foreign exchange settlement. The proportion of discretionary settlement of foreign exchange capital of foreign-invested enterprises is temporarily determined as 100%. The SAFE also has the right to adjust the aforementioned proportion in due time based on prevailing international balance of payments. We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, or at all, with respect to future loans or capital contributions by us to our PRC subsidiary. If we fail to complete such registrations or obtain such approvals, our ability to contribute additional capital to fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

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

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

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Movements in Renminbi exchange rates are affected by, among other things, changes in political and economic conditions and the PRC's foreign exchange regime and policy. The PBOC regularly intervenes in the foreign exchange market to limit fluctuations in Renminbi exchange rates and achieve certain exchange rate targets and policy goals. From mid-2008 to mid-2010 the Renminbi traded within a narrow range against the US dollars. In June 2010 the PBOC announced the removal of the de facto peg. Following this announcement, the Renminbi has appreciated. We cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollars in the future.

In addition, conversion and remittance of foreign currencies are subject to the PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we shall have sufficient foreign exchange to meet our foreign exchange needs. Under the PRC's current foreign exchange control system, foreign exchange transactions under the current account conducted by us do not require advance approval from the SAFE, but we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the licenses to carry out foreign exchange business. Certain foreign exchange transactions under the capital account, however, must be approved by or registered with the SAFE or its local branch. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or satisfy any other foreign exchange obligation. If we fail to obtain approvals from the SAFE to convert Renminbi into any foreign exchange for any of the above purposes, our potential offshore capital expenditure plans and even our business, may be materially and adversely affected.

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

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

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RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and their liquidity and market price 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 (for ourselves and on behalf of the Selling Shareholders) 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 expect our Shares to be listed on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of our Shares will not decline following the Global Offering. Furthermore, the price and trading volume of our Shares may be volatile.

The following factors could cause the market price of our Shares following the Global Offering to vary significantly from the Offer Price:

- variation in our turnover, earnings and cash flows;
- liability claims brought against us based on, for example, defective products or safety-related regulatory actions;
- interruptions to our sales and distribution arrangements;
- our failure to execute our business strategies;
- any unexpected business interruptions resulting from operational breakdowns or natural disasters;
- inadequate protection of our intellectual property or legal proceedings brought against us for infringement of third parties' intellectual property rights;
- any major changes in our key personnel or senior management;
- our inability to obtain or maintain regulatory approval for our products; and
- political, economic, financial and social developments.

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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 the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible asset value to HK\$1.9 per Share and HK\$1.7 per Share, based on the high-end of the indicative Offer Price range of HK\$6.19 per Share and low-end of the indicative Offer Price range of HK\$5.16 per Share, respectively, assuming that the Over-allotment Option is not exercised. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience dilution in the net tangible asset value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

Sale or anticipated sale of substantial amounts of our Shares in the public market after the Global Offering could materially and adversely affect the prevailing market price of our Shares

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods. There is no assurance that our Controlling Shareholders will not dispose of these Shares following the expiration of the lock-up periods, or any Shares they may come to own in the future. Sale of a substantial portion of our Shares in the public market, or the perception that such sale may occur, could materially and adversely affect the prevailing market price of our Shares. Such sale or the perception of such sale is likely to make it more difficult for us to sell equity or equity-linked securities in the future at a time and price which we deem appropriate.

You may face difficulties in protecting your interests because we are incorporated under the Cayman Islands law, and these laws relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions

Our corporate affairs are governed by, among other things, the Articles of Association, the Cayman Companies Law and common law of the Cayman Islands. The rights of shareholders to take action against our Directors, actions by minority Shareholders and the fiduciary responsibilities of our Directors to us are to a large extent governed by the common law of the Cayman Islands and our Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority Shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority Shareholders may be limited compared to the laws of other jurisdictions. Please refer to the section headed “Summary of the Constitution of our Company and Cayman Company Law” in Appendix III to this prospectus for further details.

We cannot guarantee you when, if and in what form dividends will be paid in the future; dividends declared in the past may not be indicative of our dividend policy in the future

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends will be formulated by our Board of Directors at their discretion and will be subject to our Shareholders’ approval. The actual amount of any dividends to be declared or

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distributed will depend on various factors, including but not limited to our results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits, our Articles of Association, any applicable laws and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board of Directors from time to time to be relevant. As a result, we cannot guarantee you when, if and in what form dividends will be paid in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. Please refer to the subsection headed “Financial Information — Dividend Policy” in this prospectus for more details of our dividend policy.

Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins

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

We cannot guarantee the accuracy of facts, forecasts and other statistics with respect to certain information obtained from official governmental and other sources contained in this prospectus

Facts, statistical and forecast information relating to the respective economies, CCMG product markets and Chinese healthcare product markets in Hong Kong and the PRC contained in this prospectus have been compiled from various publicly available official governmental sources and the market research report prepared by Euromonitor. While we have taken reasonable care in the reproduction of the information, it has not been prepared or independently verified by us, the Selling Shareholders, the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, the Joint Lead Managers, the Underwriters or any of our or their respective affiliates or advisers or any other parties involved in the Global Offering, and, therefore, we cannot assure you as to the accuracy and reliability of such facts, forecasts and statistics, which may not be consistent with other information compiled inside or outside the PRC. Such facts forecasts and statistics include the facts forecasts and statistics used in “Summary”, “Risk Factors”, “Industry Overview” and “Business”. Because of possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts, forecasts or statistics.

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No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus and the Application Form, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Selling Shareholders, the Controlling Shareholders, the Sole Global Coordinator, the Joint Lead Managers, the Sole Bookrunner, the Sole Sponsor and the Underwriters, any of our or their respective directors, officers, agents, employees or advisers or any other party involved in the Global Offering.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles and/or other media regarding us, our business, the TCM industry and the Global Offering

There has been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and/or media regarding us, our business, the TCM industry and the Global Offering. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares. None of us, the Selling Shareholders, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Sole Sponsor, the Underwriters or any other person involved in the Global Offering has authorised the disclosure of any such information in the press or media and none of these parties accepts any responsibility for the accuracy or completeness of the information contained in such press articles and/or other media or the fairness or appropriateness of any forecasts, views or opinions expressed by the press and/or other media regarding our Shares, the Global Offering, our business, our TCM industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim 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.

WAIVER FROM COMPLIANCE WITH THE LISTING RULES

We entered into, and are expected to continue after the Listing, certain continuing connected transactions. We have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the reporting, annual review, announcement, (where applicable) circular and independent shareholders' approval requirements in respect of certain continuing connected transactions under Chapter 14A of the Listing Rules. For details, please refer to the section headed "Connected Transactions" of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

UNDERWRITING

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

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to the agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on or before the Price Determination Date. The Global Offering is managed by the Sole Global Coordinator. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

SELLING RESTRICTIONS

Each person acquiring Offer Shares will be required to confirm, or by his/her acquisition of Offer Shares be deemed to confirm, that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

INFORMATION ON THE GLOBAL OFFERING

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

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus, and the procedures for applying for the Hong Kong Public Offer Shares are set out in the section headed “How to Apply for Hong Kong Public Offer Shares” in this prospectus and on the relevant Applications Forms.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Save as disclosed herein, no part of the equity or debt securities of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be void if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company’s compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants should consult their professional advisers if they are in any doubt as to the tax implications of subscription for, purchasing, holding, disposing of and dealing in our Shares. It is emphasised that none of our Group, the Selling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Global Offering accepts responsibility for the tax effects or liabilities resulting from your subscription for, purchase, holding, disposal of or dealing in our Shares.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company's share register of members to be maintained in Hong Kong. Our principal register of members will be maintained by our Company's principal share registrar in the Cayman Islands.

Dealings in our Shares registered in the share register of our Company in Hong Kong will be subject to Hong Kong stamp duty.

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

STABILISATION AND OVER-ALLOTMENT

In connection with the Global Offering, BOCOM International Securities Limited, as Stabilising Manager, or any person acting for it may over-allot Shares or effect any other transactions with a view to stabilising and maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the date of Listing. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising action.

In connection with the Global Offering, our Company is expected to grant to the International Underwriter the Over-allotment Option, which is exercisable in full or in part by the Sole Global Coordinator (on behalf of the International Underwriters) no later than 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required to issue at the Offer Price up to an aggregate of 10,669,500 Shares, representing 15% of the total number of Shares initially available under the Global Offering, to cover over-allotment in the Global Offering, if any.

Further details with respect to stabilisation and the Over-allotment Option are set out in the section headed "Structure of the Global Offering — Stabilisation and Over-allotment" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The application procedures for the Hong Kong Public Offer Shares are set out in the section headed “How to Apply for Hong Kong Public Offer Shares” in this prospectus and on the relevant Application Forms.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF SHARES

We have instructed Computershare Hong Kong Investor Services Limited, our Hong Kong Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any Shares in the name of any particular holder unless and until the holder delivers a signed form to our Hong Kong Share Registrar in respect of those Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Companies Law and our Articles of Association;
- agrees with us and each of our Shareholders that the Shares are freely transferable by the holders thereof; and
- authorises us to enter into a contract on his or her behalf with each of our Directors, managers and officers whereby such Directors, managers and officers undertake to observe and comply with.

STRUCTURE OF THE GLOBAL OFFERING

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

ROUNDING

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

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Hong Kong dollars have been translated, for the purpose of illustration only, into Renminbi and US dollars, and vice versa, in this prospectus at the following rate:

HK\$1.0000: RMB0.78895 (set by the PBOC for foreign exchange transaction prevailing on 15 June 2015)

HK\$1.0000: US\$0.12898 (set by the PBOC for foreign exchange transaction prevailing on 15 June 2015)

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

LANGUAGE

In this prospectus, if there is any inconsistency between the Chinese name of the entities or enterprises established in China, PRC nationals, PRC government entities or PRC laws, rules and regulations and their English translations, the Chinese names shall prevail. English translations of names of entities or enterprises established in China and PRC laws, rules and regulations are for identification purpose only.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Chan Yu Ling, Abraham (陳宇齡)	Flat B, 36/F, Tower 5, Dynasty Court 23 Old Peak Road Hong Kong	Chinese
Tsoi Kam Biu, Alvin (蔡鑑彪)	Flat C, 9/F Broadview Terrace 40 Cloud View Road North Point Hong Kong	Chinese
Leung Chin Man (梁展文)	Flat 8B, Block 2, Grand Garden, 61 South Bay Road Repulse Bay Hong Kong	Chinese
Man Yee Wai, Viola (文綺慧)	Flat B, 36/F, Tower 5, Dynasty Court 23 Old Peak Road Hong Kong	Chinese
<i>Non-executive Director</i>		
Chan Kin Man, Eddie (陳健文)	Flat C, 8/F, Wing On Court 24 Ho Man Tin Hill Road Kowloon Hong Kong	Chinese
<i>Independent Non-executive Directors</i>		
Leung Lim Kin, Simon (梁念堅)	Flat A, 45/F, Aigburth 12 Tregunter Path Mid-Levels Hong Kong	Chinese
Chan Kin Keung, Eugene (陳建強)	Flat D, 12/F, Pearl Gardens 7 Conduit Road Hong Kong	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Ho Kwok Wah, George (何國華)	Flat RD, 40/F, Tower 1, R Wing (Mona Lisa) Le Prestige, Lohas Park Tseung Kwan O New Territories Hong Kong	Chinese
Tsui Lap Chee (徐立之)	Flat A, 7/F, Block 3 Pine Court, 23 Sha Wan Drive Pokfulam Hong Kong	Canadian

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

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

BOCOM International (Asia) Limited
9th Floor, Man Yee Building
68 Des Voeux Road Central
Hong Kong

Sole Global Coordinator and Sole Bookrunner

BOCOM International Securities Limited
9th Floor, Man Yee Building
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Joint Lead Managers

BOCOM International Securities Limited
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DBS Asia Capital Limited
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99 Queen’s Road Central
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Reporting Accountants

Ernst & Young
Certified Public Accountants
22/F., CITIC Tower
1 Tim Mei Avenue
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Legal advisers to our Company

As to Hong Kong law:
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As to PRC law:
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As to Hong Kong law:
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As to PRC law:
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Selling Shareholders**Cosy Good Limited**

P.O. Box 957
Offshore Incorporations Centre
Road Town
Tortola
British Virgin Islands

PCL Investment Holding Ltd

171 Main Street
Road Town
Tortola
VG1110
British Virgin Islands

CORPORATE INFORMATION

Registered Office	Offshore Incorporations (Cayman) Limited Floor 4, Willow House Cricket Square, P O Box 2804 Grand Cayman KY1-1112 Cayman Islands
Headquarters and principal place of business in the Hong Kong	Suite 4002, Jardine House 1 Connaught Place Central Hong Kong
Company's website	http://www.purapharm.com <i>(information contained in this website does not form part of this prospectus)</i>
Company Secretary	Cheng Hok Kai, Frederick <i>FCPA</i> Suite 4002, Jardine House 1 Connaught Place Central Hong Kong
Authorised Representatives	Leung Chin Man Suite 4002, Jardine House 1 Connaught Place Central Hong Kong Cheng Hok Kai, Frederick Suite 4002, Jardine House 1 Connaught Place Central Hong Kong
Audit Committee	Ho Kwok Wah, George (<i>Chairman</i>) Leung Lim Kin, Simon Chan Kin Man, Eddie
Remuneration Committee	Chan Kin Keung, Eugene (<i>Chairman</i>) Tsui Lap Chee Tsoi Kam Biu, Alvin
Nomination Committee	Chan Yu Ling, Abraham (<i>Chairman</i>) Chan Kin Keung, Eugene Leung Lim Kin, Simon

CORPORATE INFORMATION

Scientific Advisory Committee

Paul Vanhoutte (*Chairman*)
Rudolf Bauer
Chan Yu Ling, Abraham
Bill Chan
Peter Hylands
Liang Song Ming
Lin Jinn Sin

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Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
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Principal Bankers

DBS Bank (Hong Kong) Limited
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China

INDUSTRY OVERVIEW

The information that appears in this Industry Overview section has been prepared by Euromonitor and reflects estimates of market conditions based publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor should not be considered as the opinion of Euromonitor as to the value of any security or the advisability of investing in the Company. Our Directors believe that the sources of information contained in this Industry Overview section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Euromonitor and set out in this Industry Overview section has not been independently verified by the Group, the Selling Shareholders, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering and neither they nor Euromonitor give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

CHINESE MEDICINE MARKET

Overview

In Hong Kong and the PRC, there is a long history of using Chinese medicine as alternative remedy to western medicine in the treatment of various health conditions or problems, or illnesses. Chinese medicine product consists mainly of the following three categories:

- *Traditional Chinese herbal medicine (中藥飲片)*. Also referred to as TCM decoction pieces and produced by processing raw Chinese herbs according to traditional Chinese medicine theory, such as steaming, boiling, frying, chopping, slicing and dehairing.
- *Chinese healthcare product*. Such product contains raw Chinese herbs or Chinese medicinal extracts as functional ingredients. Chinese healthcare products have health benefits beyond what a normal healthy diet can provide. Chinese healthcare products consist of general health maintenance products and functional products. Consumers use general health maintenance products primarily for maintaining overall health and general wellbeing. Functional products attempt to target a consumer's specific health condition or problem, or illnesses, which is not serious in nature.
- *Proprietary Chinese medicine*. Medicine developed by using the raw Chinese herbs. The curative efficacy of proprietary Chinese medicine has been observed and investigated in medical studies and through clinical experience. Such product has been approved by relevant authorities as being safe for consumption. Proprietary Chinese medicine can take a variety of forms, such as capsule, pellet, powder, paste or pill.

The Chinese medicine market or the TCM industry consists of three segments, namely, the traditional Chinese herbal medicine market segment, the Chinese healthcare product market segment and the proprietary Chinese medicine market segment.

INDUSTRY OVERVIEW

CCMG Product

CCMG products were first invented in Japan during the 1970s. CCMG products are essentially a modernised form of traditional Chinese herbal medicines (中藥飲片) and extracted by using modernised extraction and concentration technologies that replicate the traditional method of preparing medicinal decoction. CCMG products consist of single formulae products (單方) and combo formulae (複方) products. CCMG single formulae products are granules made from one ingredient only. CCMG combo formulae products are granules made from a combination of different ingredients in accordance with formulae set forth in the Chinese Pharmacopoeia (《中國藥典》) and other relevant authoritative literature of Chinese medicine. Patients use such products through prescriptions by qualified Chinese medicine practitioners.

Over the years, CCMG products have gradually become substitutes for traditional Chinese herbal medicines due to the government initiatives to promote the use of CCMG products and increasing consumer awareness of the benefits of such products. All CCMG products are required to be manufactured in the GMP-certified facilities in accordance with relevant product quality and safety standards. In recent years, the efficacy of CCMG products becomes more acceptable by patients. Moreover, CCMG products can be instantly dissolved into hot water for use. By comparison, taking traditional Chinese herbal medicines is not convenient to patients due to the complicated decoction process.

HONG KONG CHINESE MEDICINE MARKET

Growth Drivers

According to the Euromonitor Report, the key growth drivers for the Hong Kong Chinese medicine market include the following:

- *Significant purchases by PRC consumers in Hong Kong.* The number of PRC consumers visiting Hong Kong has reached a record high in recent years. They usually perceive Chinese medicine products in Hong Kong are more authentic with the relatively higher product quality and safety. In addition, PRC growers often select and export top-graded traditional Chinese herbal medicines to Hong Kong in order to obtain a higher price. The significant sales volume of Chinese medicine products to PRC consumers each year drives the healthy growth of the Hong Kong Chinese medicine market.
- *Support from Hong Kong government.* In 1999, the Hong Kong government officially recognised the status of Chinese medicine products. It has also taken a series of measures to regulate the development of Hong Kong Chinese medicine market, including the establishment of the Chinese Medicine Council of Hong Kong and the Chinese Medicine Division thereunder to regulate and monitor the use of Chinese medicine. The Hong Kong government has also established a network of academic institution and raised research funds for Chinese medicine companies to conduct research and product development. In addition, the Chinese Medicine Ordinance has been enacted to regulate Chinese medicine practice and standardise the licensing process for Chinese medicines.

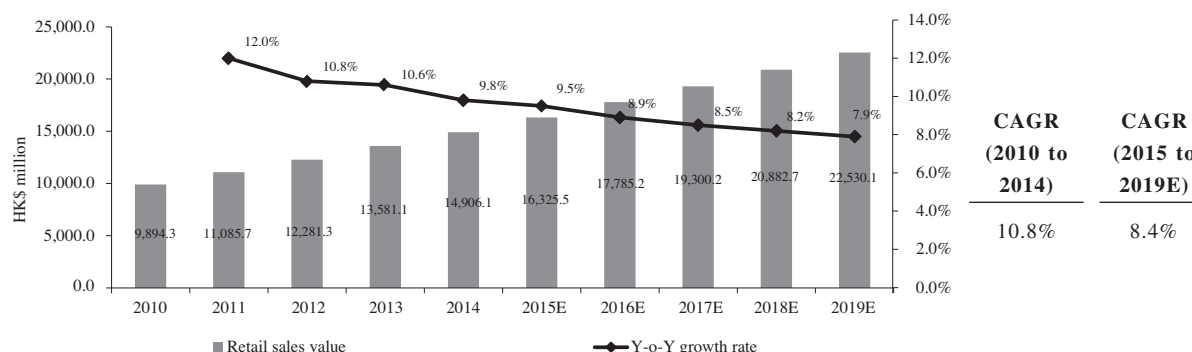
INDUSTRY OVERVIEW

- *Fostering of new Chinese medicine practitioners.* Academic institutions (such as The Chinese University of Hong Kong, the University of Hong Kong and the Hong Kong Baptist University) have offered courses to help students obtain the professional qualification of Chinese medicine practitioner. More Chinese medicine clinics are expected to be opened given the number of Chinese medicine practitioners increases.
- *Increasing market demand due to ageing population and changing consumer perception toward Chinese medicines.* According to the Census and Statistics Department of Hong Kong, the ageing population (aged 65 and above) has been increasing and the elderly purchase Chinese medicine products to strengthen and maintain a healthy condition, which drives the demand for Chinese medicine products. Hong Kong residents are interested in traditional Chinese culture. With the development of modernised Chinese medicines, they tend to use more of such products which are easy to take and suitable for people living in a fast pace environment.

Market Size and Outlook

Overall Market

The chart below sets forth the historical and projected retail sales value of the Hong Kong Chinese medicine market from 2010 to 2019:



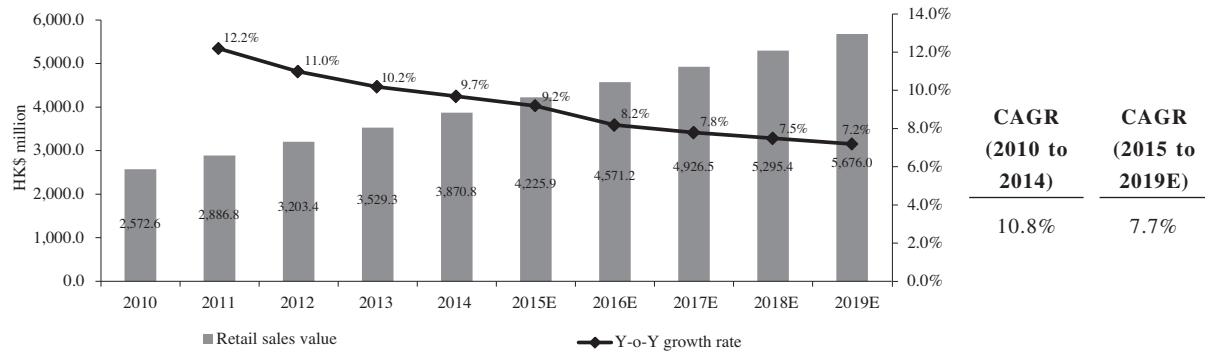
Source: Euromonitor estimates from trade interviews and desk research

Hong Kong local regulations make it easier for local companies to import Chinese medicine products into Hong Kong than to manufacture such products locally. With the continuous increase in the ageing population in Hong Kong and the rising consumer interest in Chinese medicine products, the Hong Kong Chinese medicine market is expected to continue to grow in the future.

INDUSTRY OVERVIEW

Hong Kong Traditional Chinese Herbal Medicine Market

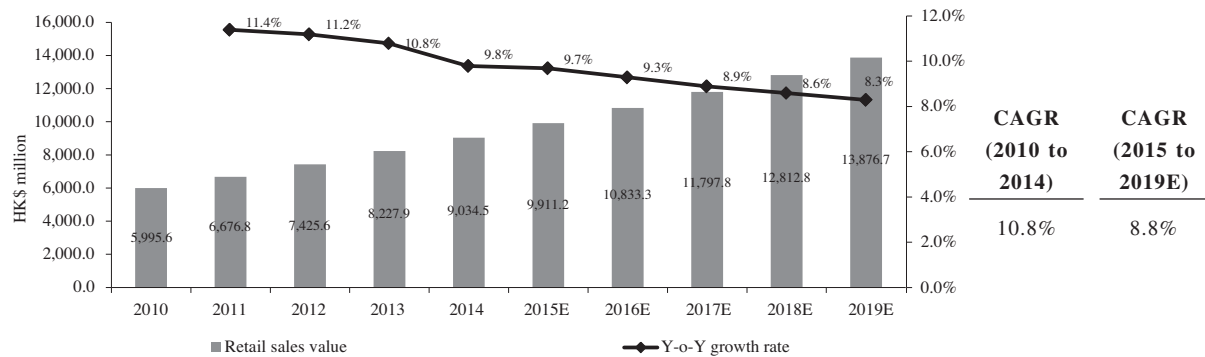
The chart below sets forth the historical and projected retail sales value of Hong Kong traditional Chinese herbal medicine market from 2010 to 2019:



Source: Euromonitor estimates from trade interviews and desk research

Hong Kong Chinese Healthcare Product Market

The chart below sets forth the historical and projected retail sales value of the Hong Kong Chinese healthcare product market from 2010 to 2019:

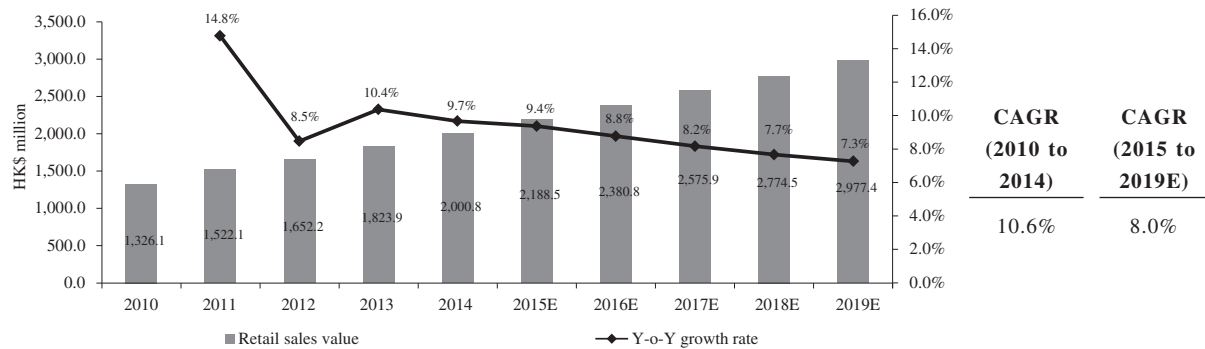


Source: Euromonitor estimates from trade interviews and desk research

INDUSTRY OVERVIEW

Hong Kong Proprietary Chinese Medicine Market

The chart below sets forth the historical and projected retail sales value of the Hong Kong proprietary Chinese medicine market from 2010 to 2019:



Source: Euromonitor estimates from trade interviews and desk research

HONG KONG CCMG PRODUCT MARKET

Overview

CCMG products were first launched in Hong Kong in the early 1990s. CCMG products are prescribed and sold to patients through the following channels in Hong Kong:

- Public clinic.* Public clinics administered by the Hong Kong Hospital Authority. The Hong Kong Hospital Authority also collaborates with non-profit organisations and local universities to provide Chinese medicine services to the public. Non-profit organisations and charities also operate Chinese medicine clinics. In addition, local universities operate Chinese medicine programmes and provide clinic services to the public. As the entry requirement of public sector is higher than that of private sector, certain CCMG products are not qualified to be prescribed and sold in the public sector.
- Private clinic.* There are thousands of private Chinese medicine clinics in Hong Kong, including major chain clinics and small individual ones. Approximately 40% of private Chinese medicine clinics prescribe CCMG products to patients, whereas the rest of them continue to prescribe traditional Chinese herbal medicines.

INDUSTRY OVERVIEW

Growth Drivers

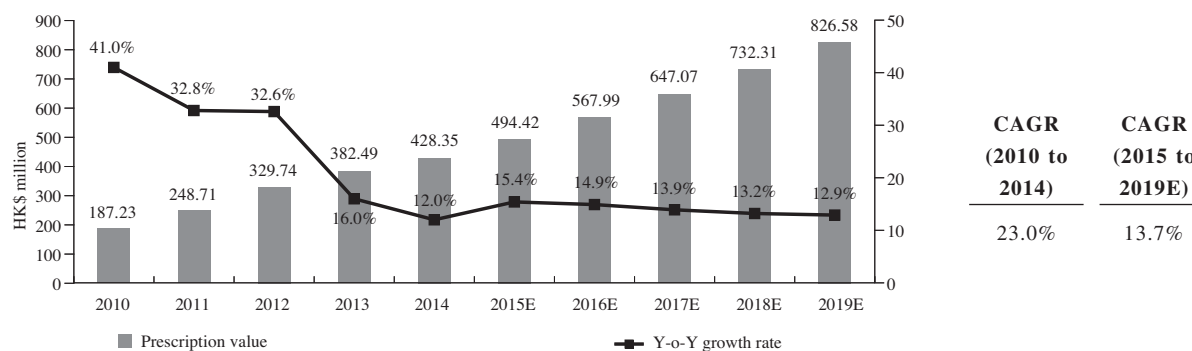
According to the Euromonitor Report, the key growth drivers for the Hong Kong CCMG product market include the following:

- *Leading CCMG product players further expansion into new sales channels.* Leading CCMG product players in Hong Kong have made efforts to further expand into new sales channels to capture growing market demand for CCMG products. Certain CCMG product manufacturers have expanded their self-branded Chinese medicine clinics in Hong Kong. Pharmacy chain stores (such as Watsons) have established Chinese medicine departments within pharmacy stores where Chinese medicine practitioners prescribe CCMG products to patients. Some manufacturers have also increased the sales of CCMG products to mobile clinics operated by non-profit organisations.
- *Higher public confidence in CCMG products due to government regulation and monitoring.* CCMG combo formulae products as a subcategory under proprietary Chinese medicine are required to be registered with the Chinese Medicine Board of Hong Kong before they can be sold in Hong Kong. Since 1999, the Chinese Medicine Practitioners Board of the Chinese Medicine Council has required Chinese medicine practitioners to make registrations in order to enhance the standardisation of Chinese medicine practice. Government regulation and monitoring have given the public a higher confidence in CCMG products and Chinese medicine practice.
- *Medical insurance coverage of CCMG products in Hong Kong.* The medical insurance reimbursement system in Hong Kong has covered both traditional Chinese herbal medicines and CCMG products in Hong Kong, which encourages patients to visit Chinese medicine clinics and allows Chinese medicine practitioners to prescribe CCMG products.
- *Various initiatives to promote the use of Chinese medicine treatment.* Chinese medicine treatment has been increasingly used in Hong Kong, especially in public hospitals. The Hong Kong Hospital Authority plans to provide western and Chinese medicines and related services in three public hospitals to patients who are inflicted with cancer, stroke or other serious ailments. The Hong Kong government also plans to establish a new Chinese medicine hospital in Tseung Kwan O, Hong Kong, which offers 400 beds to patients in the near future. In addition, The Chinese University of Hong Kong has recently established an integrative medical centre at the Prince of Wales public hospital in Hong Kong to provide a clinical platform for its partners on herbal medical development and complementary specialist service. Due to these initiatives, the market demand for CCMG products is expected to further increase in Hong Kong.

INDUSTRY OVERVIEW

Market Size and Outlook

The chart below sets forth the historical and projected prescription revenue of the Hong Kong CCMG product market from 2010 to 2019:



Source: Euromonitor estimates from trade interviews and desk research

The market share of CCMG product in the Hong Kong traditional Chinese herbal medicine market increased from 7.3% in 2010 to 11.1% in 2014 and is expected further increase from 11.7% in 2015 to 14.6% in 2019, according to the Euromonitor Report. The Hong Kong government will continue to support the long-term development of the Hong Kong CCMG product market and provide more related services to the public in the coming years. Leading players will continue to proactively expand into the less developed private sector, such as Chinese medicine clinics in communities, as well as pharmacy chain stores.

Competitive Landscape

Overall Market

The table below sets forth the top five companies, in terms of prescription value in 2014, in the Hong Kong CCMG product market:

Rank	Company	Market Share
1	PuraPharm Corporation Limited	70%
2	Competitor A	16%
3	Competitor B	4%
4	Competitor C	3%
5	Competitor D	2%
6	Other competitors	5%
Total		<u>100%</u>

INDUSTRY OVERVIEW

Source: Euromonitor estimates from trade interviews and desk research.

Note: The market share data reported above has been determined via a fieldwork programme consisting of desk research and trade interviews. While audited data was available for some of the companies, it typically do not break the revenue numbers into the relevant categories which were covered in this study. For these companies as well as those companies that are included in the market shares but are not publicly listed, Euromonitor has estimated the markets shares based on estimates provided by various trade sources (i.e. not just the companies themselves) and seeking a consensus on these estimates as much as possible.

According to the Euromonitor Report, the Hong Kong CCMG product market is relatively concentrated and the top five CCMG product manufacturers had a 95.0% market share in aggregate in terms of prescription value in 2014, primarily due to high entry barriers to the market.

We ranked first in the Hong Kong CCMG product market with a 70% market share, significantly higher than the other top players. We are the market leader in the research and development, manufacture and sale of a wide range of CCMG single formulae and combo formulae products in Hong Kong. Our Nong's® (農本方)® brand is widely recognised and trusted in Hong Kong for its premium product quality, reliability and safety. We are also the only Chinese medicine manufacturer whose products are verified and recognised by the USP, according to the U.S. Pharmacopeial Convention.

Other leading market players in Hong Kong primarily include the following:

- *Competitor A.* The company commenced its business in 2004. Its manufacturing plant is located in the PRC and the company re-imported CCMG products into Hong Kong for further packaging and sales. In 2013, Competitor A started to sell the CCMG products of a Taiwan-based Chinese medicine manufacturer. The company sells CCMG products primarily to private Chinese medicine clinics and practitioners in Hong Kong.
- *Competitor B.* The company commenced its business in 2013. It was used to be the sole distributor of CCMG products by a Taiwan-based Chinese medicine manufacturer. Its manufacturing plant is located in the PRC. After the company terminated the partnership with the Taiwan-based manufacturer, Competitor B started to develop its own brand in 2013. The company sells CCMG products primarily to private Chinese medicine clinics and practitioners in Hong Kong.
- *Competitor C.* The company commenced its business in 1990s. Its manufacturing plant is located in Taiwan. The company sells CCMG products primarily to private Chinese medicine clinics and practitioners in Hong Kong.
- *Competitor D.* The company commenced its business in 1999. Its manufacturing plant is located in the PRC and its combo formulae CCMG products are developed specifically for export purpose. The company sells CCMG products primarily to private Chinese medicine clinics and practitioners in Hong Kong.

INDUSTRY OVERVIEW

Entry Barriers

Barriers to entry for the Hong Kong CCMG product market are high. They mainly consist of the following:

- *Registrations of CCMG combo formulae products in Hong Kong.* It is very common for Chinese medicine practitioners in Hong Kong to prescribe CCMG combo formulae products to patients. These products are required to be registered with the Chinese Medicines Board before they can be prescribed and sold to patients. The time and cost of completing each registration is usually high due to the strict requirements for various types of testing (such as the testing of content, stability and product safety).
- *Requirement of product insurance.* CCMG product manufacturers are required to obtain product liability insurance with a certain minimum coverage before they are eligible to participate in the public tendering process by the Hong Kong Hospital Authority for its Chinese medicine procurement. In order to obtain such product liability insurance, CCMG product manufacturers must provide solid proof of product quality.
- *Establishment of an extensive sales network.* Private Chinese medicine clinics are highly fragmented and it takes a long time and great efforts to establish an extensive sales network covering scattered private clinics in Hong Kong.

Major Raw Materials and Final Products

Chinese medicine companies in Hong Kong largely rely on the import of raw Chinese herbs and ready-to-use CCMG products mainly from sourcing bases in the PRC. Hong Kong local regulations also make it easier to import CCMG products into Hong Kong than to manufacture these products locally. Please refer to the subsection headed “— The PRC CCMG Product Market — Major Raw Materials and Final Products” for further discussion on the PRC average purchase prices of the five most-commonly-used raw Chinese herbs for the manufacture of Chinese medicine products from 2010 to 2014.

There is a wide range of selling prices for CCMG products in Hong Kong, which depend on the type, packaging and brand of such products. In particular, the selling prices of CCMG single formulae products in Hong Kong vary widely. As at the Latest Practicable Date, the selling price of CCMG single formulae product in 100 grams package ranged from HK\$7 to HK\$400. The selling prices of CCMG products in Hong Kong remained relatively stable during the Track Record Period. Euromonitor has confirmed that it is difficult to obtain the average selling prices of CCMG products which are marketed in Hong Kong. We do not rely on the sales of any particular CCMG product which could have a material effect on our total revenue.

INDUSTRY OVERVIEW

HONG KONG CHINESE HEALTHCARE PRODUCT MARKET

Overview

There are a wide variety of Chinese healthcare products in Hong Kong which are either manufactured locally or imported from other countries. Most Chinese healthcare products are classified by herb type. The most popular Chinese healthcare products in China include Lingzhi, Lingzhi spores and Cordyceps.

Chinese healthcare products are mainly sold through pharmacy stores (such as Watsons, Mannings and CR Care) and specialised Chinese medicine retailers in Hong Kong. In addition, Chinese healthcare products are sold at multi-brand pharmacy stores in Hong Kong or through internet retailers.

Please refer to the subsection headed “ — Hong Kong Chinese Medicine Market — Market Size and Outlook” for further details on the relevant market size and outlook. There is no official classification for Chinese healthcare products in Hong Kong. Such products can be either registered as proprietary Chinese medicine which usually requires a longer period for approval, or marketed as food and cosmetics which are labelled as less health functionality. Lack of standardised product classification prevents the establishment of a sound market order. Chinese healthcare products are expected to become more popular in Hong Kong due to the growing ageing population and the increasing health awareness of consumers.

Growth Drivers

According to the Euromonitor Report, the key growth drivers for the Hong Kong Chinese healthcare product market include the following:

- *Increasing health awareness of consumers in Hong Kong.* The elderly purchase Chinese healthcare products to protect themselves from diseases. An increasing number of younger people also take such products regularly to prevent the rise of sub-healthy conditions and chronic diseases.
- *Significant purchases by PRC consumers in Hong Kong.* The number of PRC consumers visiting Hong Kong has reached a record high in recent years. They believe Chinese healthcare products in Hong Kong are more authentic with the relatively higher quality and safety and at comparatively reasonable prices. They purchase a significant volume of Chinese healthcare products in Hong Kong each year.
- *Higher profitability compared to other type of Chinese medicine product.* As the retail sales mark-up of Chinese healthcare product is typically high in Hong Kong, manufacturers and retailers have made good profits from the sales of such product compared to other type of Chinese medicine product. More manufacturers and retailers have entered into this market and provided a wide range of Chinese healthcare products to consumers.

INDUSTRY OVERVIEW

- *Strengthened consumer confidence due to established research collaborations.* Manufacturers of major product brands in Hong Kong have collaborated with leading universities and research institutes to conduct research and product development, which strengthens consumer confidence in Chinese healthcare products.

Competitive Landscape

According to the Euromonitor Report, the Hong Kong Chinese healthcare product market is highly fragmented with thousands of manufacturers in the market, due to a relatively low entry barrier and a wide range of product offerings. Moreover, consumers can purchase local brands and imported foreign products in Hong Kong. Some brand owners and retailers cut prices to win consumers which often leads to an unhealthy environment for the Hong Kong Chinese healthcare product market.

We manufacture and sell a broad range of general Chinese healthcare products, examples being PuraGold® (金靈芝)® and Oncozac® (安固生)®. Our ONCO-Z coriolus versicolor extract, the sole ingredient of one of our Chinese healthcare products, Oncozac® (安固生)®, was verified by the USP as dietary supplement ingredient and became the world's first TCM ingredient verified by the USP.

Major Raw Materials and Final Products

Euromonitor has confirmed that it is difficult to obtain the average selling prices of Chinese healthcare products in Hong Kong, primarily due to the following reasons: (i) the Hong Kong Chinese healthcare product market is fragmented and there are a large number of Chinese healthcare product manufacturers offering a wide variety of products to end consumers; and (ii) the selling prices of different Chinese healthcare products offered by these manufacturers in Hong Kong vary widely, depending on the type, packaging and brand of such products.

Chinese medicine companies in Hong Kong largely rely on the import of raw Chinese herbs mainly from the PRC. Please refer to the subsection headed “— The PRC CCMG Product Market — Major Raw Materials and Final Products” for further discussion on the PRC average purchase prices of the five most-commonly-used raw Chinese herbs for the manufacture of Chinese medicine products from 2010 to 2014.

THE PRC CHINESE MEDICINE MARKET

Growth Drivers

According to the Euromonitor Report, the key growth drivers for the PRC Chinese medicine market include the following:

- *Government investments in the PRC healthcare sector and promulgation of favourable policies.* Government investments in the PRC healthcare sector have led to solid growth in related industries, such as the PRC Chinese medicine market. In addition, in the National 12th Five-Year Plan on Science and Technology, the PRC government supports the construction of Chinese medicine hospitals, strengthens the training for Chinese medicine professionals and reinforces the intellectual property protection of Chinese medicines.

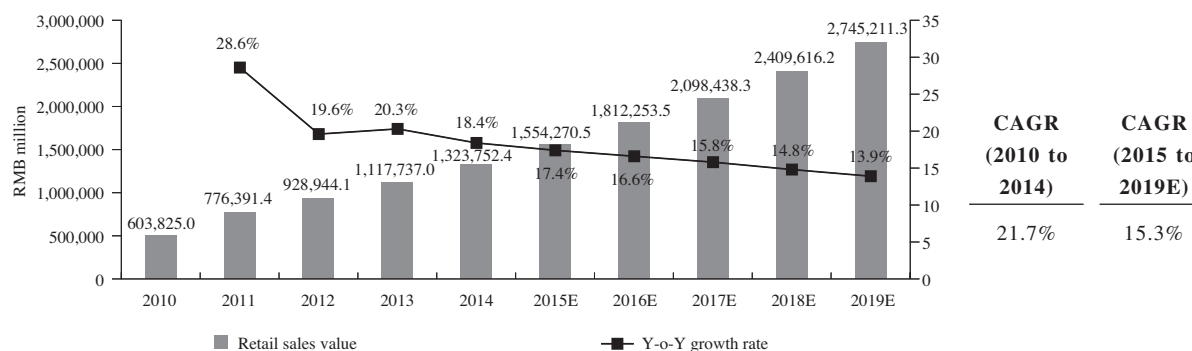
INDUSTRY OVERVIEW

- *Increasing demand for Chinese medicines due to the high incidence of chronic diseases.* As a result of unhealthy and high-pressure lifestyles, ageing population, and environmental issues, the incidence of chronic diseases is higher than before. Chinese medicine has better curative efficacy in the treatment of chronic diseases, compared to western medicine.
- *Extended applications of Chinese medicines.* Some manufacturers have developed new applications of proprietary Chinese medicines (such as health beauty). Other manufacturers have produced toothpaste and functional beverages which contain certain active ingredients in Chinese herbal extracts. These applications increase consumers' awareness of Chinese medicines.
- *Changing consumer perceptions towards Chinese medicines.* The elderly seek Chinese healthcare products to protect themselves from diseases. An increasing number of younger people are aware of the benefits of Chinese medicine products and adopt Chinese medicine treatment to prevent the rise of sub-healthy conditions and chronic diseases.

Market Size and Outlook

Overall Market

The chart below sets forth the historical and projected retail sales value of the PRC Chinese medicine market from 2010-2019:



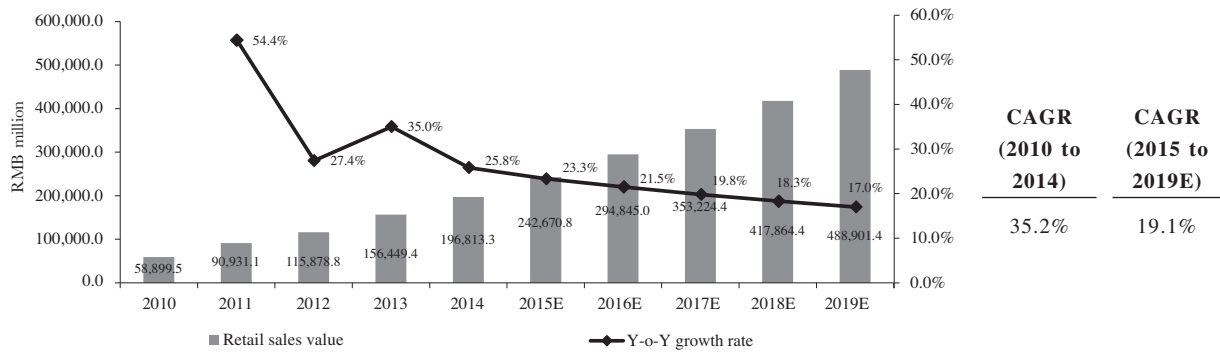
Source: Euromonitor estimates from trade interviews and desk research

As more people have increasingly recognised the benefits of Chinese medicine products to treat chronic diseases and prevent viral symptoms, combined with the opportunities in the PRC healthcare industry, the PRC Chinese medicine market is expected to continue to grow. Manufacturers of proprietary Chinese medicines are dedicated in the development of innovative products so as to diversifying their product portfolios.

INDUSTRY OVERVIEW

The PRC Traditional Chinese Herbal Medicine Market

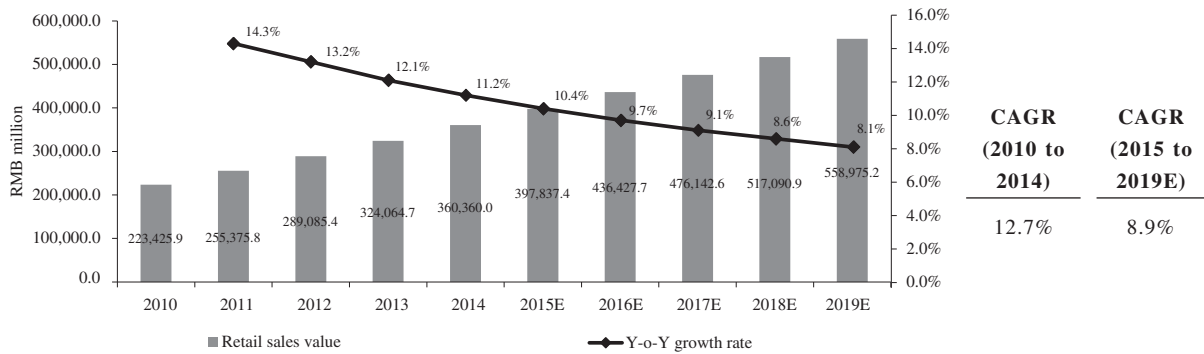
The chart below sets forth the historical and projected retail sales value of the PRC traditional Chinese herbal medicine market from 2010 to 2019:



Source: Euromonitor estimates from trade interviews and desk research

The PRC Chinese Healthcare Product Market

The chart below sets forth the historical and projected retail sales value of the PRC Chinese healthcare product market from 2010 to 2019:

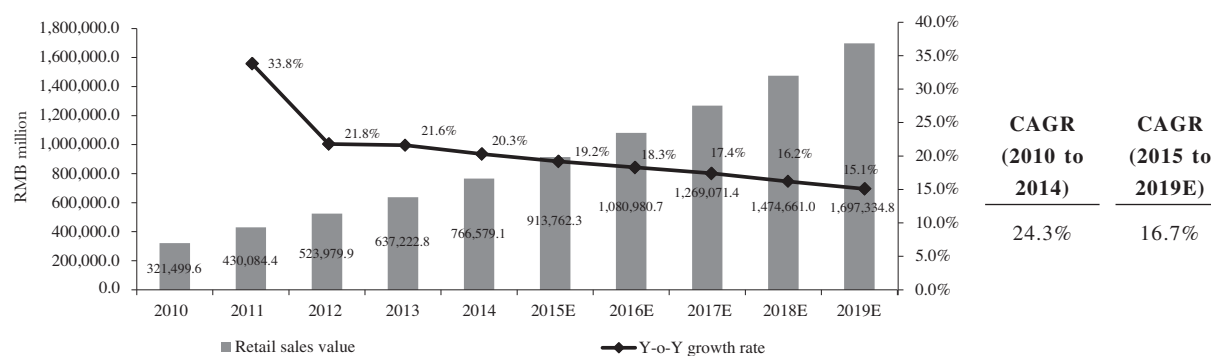


Source: Euromonitor estimates from trade interviews and desk research

INDUSTRY OVERVIEW

The PRC Proprietary Chinese Medicine Market

The chart below sets forth the historical and projected retail sales value of the PRC proprietary Chinese medicine market from 2010 to 2019:



Source: Euromonitor estimates from trade interviews and desk research

THE PRC CCMG PRODUCT MARKET

Overview

In the early 1980s, Chinese medicine professionals started research on CCMG products and obtained evidence for further product research and development. In 2001, the CFDA issued “Provisional Regulations on Management of Concentrated Chinese Medicine Granules”. Since the release of this regulation, CCMG products have been in the trial production and testing use phase with approved hospitals and medical institutions. As at 31 December 2014, the CFDA approved five companies to manufacture and sell CCMG products in the PRC.

Only CCMG single formulae products can be manufactured and sold in the PRC. As CCMG products are still under a trial production and testing use phase, they can be sold only through hospital sales channel in the PRC which includes Chinese medicine hospitals and hospitals with Chinese medicine departments. Several provinces (such as Jiangsu Province) and municipalities even require that CCMG products can be only prescribed in hospitals of the level two or above.

CCMG products are exported under the HS code of 30049059 (other proprietary Chinese medicines for retail sales). According to the General Administration of Customs, the export value for HS code 30049059 reached US\$181.5 million in 2014. The top five export destinations include Hong Kong, the United States, Japan, Singapore and Malaysia.

INDUSTRY OVERVIEW

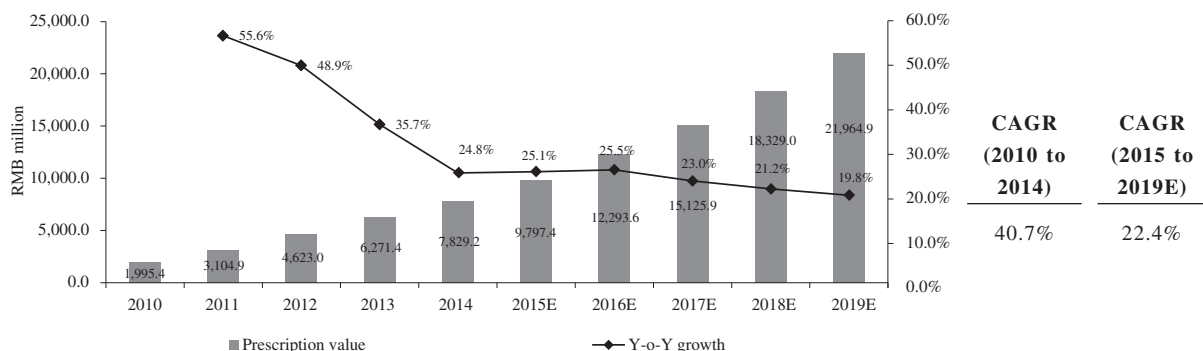
Growth Drivers

According to the Euromonitor Report, the key growth drivers for the PRC CCMG product market include the following:

- *Ease of use and time efficiency of CCMG products.* Unlike traditional Chinese herbal medicines which require a complicated and time consuming decoction process, CCMG products can be instantly dissolved into hot water for use. Patients tend to choose a CCMG product which is easier to take and suitable for people living in a fast pace environment.
- *Broader coverage of medical insurance reimbursement in the PRC.* As the prescription cost for CCMG products is higher than that for traditional Chinese herbal medicines, some patients likely choose the latter. An increasing number of local government authorities in the PRC have approved CCMG products for reimbursement in their medical insurance programs, such as Beijing in 2009 and Shenzhen in 2011. As a result, more consumers in these PRC cities may seek prescription of CCMG products in the future.
- *Improved production capabilities of CCMG product manufacturers to meet increasing market demand.* Three of the five CFDA-licensed CCMG product manufacturers have enhanced, or are in the process of improving, their capabilities to manufacture quality CCMG products catering for the increasing market demand.
- *Investments in CCMG product manufacturers.* Two of the five CFDA-licensed CCMG product manufacturers have attracted investments from large pharmaceutical companies and strengthened their advantages.

Market Size and Outlook

The chart below sets forth the historical and projected prescription value of the PRC CCMG product market from 2010 to 2019:



Source: Euromonitor estimates from trade interviews and desk research

INDUSTRY OVERVIEW

CCMG products have been regulated by the CFDA under the category of traditional Chinese herbal medicine. The market share of CCMG product in the PRC traditional Chinese herbal medicine market increased from 3.4% in 2010 to 4.0% in 2014 and is expected to further increase from 4.1% in 2015 to 4.6% in 2019, according to the Euromonitor Report.

Some of the five CFDA-licensed CCMG product manufacturers will establish new manufacturing facilities and/or raw material plantation bases to improve their capabilities to manufacture quality CCMG products. The PRC CCMG product market will continue the stable growth driven by rising consumer awareness of the benefits of CCMG products. The National 12th Five-Year Plan and Provisional Regulations on Management of Concentrated Chinese Medicine Granules provide guidance on the further development of the PRC CCMG product market.

Entry Barriers

Barriers to entry for the PRC CCMG product market are high. They mainly consist of the following:

- *Strict supply chain requirements.* Raw Chinese herbs for the manufacture of CCMG products must meet the requirements in Chinese Pharmacopoeia. The CFDA-licensed CCMG product manufacturers are further guided to purchase raw Chinese herbs directly from respective places of origin in order to better control raw material quality and safety. Moreover, CFDA-licensed CCMG product manufacturers are required to procure on average 300 to 500 types of raw Chinese herbs in order to meet the basic needs of hospitals in the PRC.
- *High manufacturing cost.* Inventory costs for the procurement and processing of 300 to 500 types of raw Chinese herbs are usually high. Due to a wide variety of product offering, CCMG product manufacturers must have strong capabilities in production planning in order to optimise the use of their manufacturing facilities.
- *Difficulty in introduction of new brands in the existing hospital sales channel.* Many municipalities and provinces require that CCMG products can be only prescribed in hospitals of the level two or above. As each hospital usually accepts only two to three different brands of CCMG products, it is difficult for new entrants to establish its brand awareness in the existing hospital sales channel in the PRC.

INDUSTRY OVERVIEW

Competitive Landscape

According to the Euromonitor Report, the PRC CCMG product market is highly concentrated. The top three players dominate the PRC CCMG product market with a 87% market share in aggregate in terms of prescription value in 2014, primarily due to high entry barriers to the market. The CFDA approved six CCMG product manufacturers and Competitor A1 (listed below) acquired another CCMG product manufacturer in 2008. As at 31 December 2014, there were only five CFDA-licensed CCMG product manufacturers in this market, including the following:

- *Competitor A1.* The company operates GMP-certificated manufacturing facilities with modernised production equipment for volatile oil extraction, low temperature concentration and ultrafine grinding, advanced testing equipment, and plastic composite film packaging line. It also owns a GAP-certificated plantation base. The company has strong research and product development capability. Its sales and distribution network covers the PRC with a focus on the East China.
- *Competitor B1.* The company operates GMP- and GSP-certificated manufacturing facilities with modernised production equipment for fine grinding and advanced testing equipment. It has strong market recognition of its brand name. Its parent company provides strong financial and technological supports to the company. Its sales and distribution network covers the PRC with a focus on the South China.
- *Competitor C1.* The company operates a fully-automated manufacturing facility with advanced testing equipment. It has developed a CCMG product clinic management system. It also has strong connections with academic institutions in the PRC. Its parent company provides strong financial and technological supports to the company. Its sales and distribution network covers the PRC with a focus on the North China.
- *Competitor D1.* The company operates a GMP-certificated manufacturing facility with advanced testing equipment (such as U.S.-imported Waters2965 HPLC, Japan-imported gas chromatograph and TLC scanner), modernised production equipment (such as supercritical carbon dioxide extraction device) and membrane separation packing equipment. It also owns a GAP-certificated plantation base. It has developed an automated CCMG product dispensary system. It has strong research and product development capability. Its sales and distribution network covers the PRC with a focus on the Mid-western China.

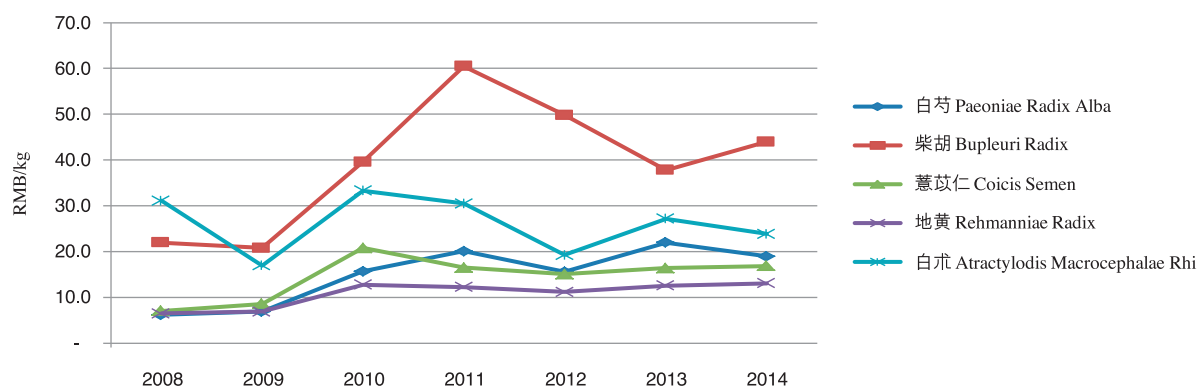
According to the Euromonitor Report, we had a 5% market share in terms of prescription value in 2014 in the PRC CCMG product market. We offer the most comprehensive range of CCMG products among the five CFDA-licensed CCMG product manufacturers. According to the Chinese Medicine Council of Hong Kong, we are also the only CFDA-licensed CCMG product manufacturer which manufactures and sells combo formulae products in Hong Kong. In addition, we are the only CFDA-licensed CCMG product manufacturer who receives USP verification of certain CCMG products according to the U.S. Pharmacopeial Convention. Among the five CFDA-licensed CCMG product manufacturers in the PRC, we are the only CCMG product manufacturer whose products are

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verified and recognised by the USP, according to the U.S. Pharmacopeial Convention. Moreover, according to the CNAS, we are the only CFDA-licensed CCMG product manufacturer whose testing laboratory is certified by CNAS in accordance with relevant ISO 17025 standards and is qualified to issue safety reports recognised by over 70 countries through our in-house CNAS ISO 17025 laboratory.

Major Raw Materials and Final Products

There are a wide variety of key raw Chinese herbs for the manufacture of CCMG products in the PRC. The chart below sets forth the PRC average purchase prices of the five most-commonly-used raw Chinese herbs for CCMG product production from 2010 to 2014. The average purchase prices of these five raw Chinese herbs increased from 2010 to 2011 and from 2013 to 2014, respectively, primarily attributable to the drought in some major plantation regions in the PRC. Such prices decreased from 2011 to 2012, as the production of raw Chinese herbs returned to normal level.



Source: www.ZYCTD.com

There is a wide range of selling prices for over 500 types of CCMG products which are in the PRC, depending on the type, packaging and brand of such products. The prices of CCMG single formulae products, the only type allowed for sale in the PRC, vary widely. As at the Latest Practicable Date, the prices of CCMG single formulae products in 200 grams package range from several to thousands of RMB yuan. The prices of CCMG products in the PRC remained relatively stable during the Track Record Period. Euromonitor has confirmed that it is difficult to obtain the average selling prices of CCMG products which are marketed in the PRC.

THE PRC CHINESE HEALTHCARE PRODUCT MARKET

Please refer to the subsection headed “— The PRC Chinese Medicine Market — Market Size and Outlook” for further details on the relevant market size and outlook.

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Growth Drivers

According to the Euromonitor Report, the key growth drivers for the PRC Chinese healthcare product market include the following:

- *Increasing health awareness of consumers.* Chinese consumers have a natural preference for Chinese health care products since the concept of Chinese medicine is deeply rooted in their culture. Moreover, Chinese consumers in different age groups become increasingly concerned about their health conditions. They purchase a wide variety of Chinese healthcare products for the purposes of boosting their energy and strengthening their immune systems. Chinese healthcare companies have benefited from increasing consumer demand.
- *Emergence of online sales channels.* With the emergence of e-commerce, more Chinese healthcare product manufacturers have opened their self-operated online retail stores or sell their products through online sales platforms in order to reach end consumers of young generation and increase product sales.

Competitive Landscape

According to the Euromonitor Report, the PRC Chinese healthcare product market is highly fragmented with hundreds and thousands of manufacturers in the market, due to a wide range of product offerings by a significant number of manufacturers. We have focused our marketing resources primarily on the sales of Chinese healthcare products in Hong Kong. We only sold a very small portion of our PuraGold® (金靈芝)® product in the PRC.

Major Raw Materials and Final Products

There are a wide variety of key raw materials and relevant major Chinese healthcare products in the PRC. Their unit prices vary widely, ranging from several to thousands of RMB yuan. Euromonitor has confirmed that it is difficult to obtain the average selling prices of Chinese healthcare products in the PRC primarily due to the following reasons: (i) the PRC Chinese healthcare product market is fragmented and a significant number of Chinese healthcare product manufacturers offer a wide variety of products to end consumers; and (ii) the selling prices of different Chinese healthcare products offered by these manufacturers in the PRC vary widely, depending on the type, packaging and brand of such products, as well as the quality grade of raw materials. For example, as at the Latest Practicable Date, the prices of Cordyceps Chinese healthcare products could cost several thousand RMB yuan, while the prices of some common Chinese healthcare products, such as Cassia or Honeysuckle healthcare products, were lower than RMB10 per bottle.

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SOURCE OF INFORMATION

We have appointed Euromonitor, an Independent Third Party, to prepare a report evaluating the CCMG product and Chinese healthcare product markets in Hong Kong and the PRC for the purpose of preparing this prospectus. Information disclosed in this section has been extracted from such report (the “**Euromonitor Report**”) and published with the consent of Euromonitor. Euromonitor, founded in 1972, is a private independent provider of business intelligence on industries, countries and consumers. The total consideration that our Company has paid to Euromonitor for preparing and issuing the report was US\$57,000, and such consideration is being paid regardless of the results of the Euromonitor Report.

Euromonitor primarily undertook both secondary research and primary research to prepare its report. Secondary research, which involved reviewing published sources including authority statistics of Hong Kong and the PRC, specialist trade press and associations, our audited financial statements where available, independent research reports, and data based on its research database. Primary research which involved interviews with a sample of leading industry participants and industry experts for latest data and insights on future trends and to verify and cross check the consistency of data and research estimates. Euromonitor has used multiple secondary and primary sources to validate the data or information collected. Furthermore, a test of each interviewee’s information and views against those of others is conducted by Euromonitor and being applied to ensure reliability and to eliminate bias.

The factors that were considered by Euromonitor for the forecast include (i) macro-economy and regulation; (ii) analysis of historic development of the market; (iii) the economic environment and underlying market drivers; (iv) established industry data; and (v) interviews with industry experts. The forecast was based on certain assumptions, including (i) the PRC economy is expected to maintain steady growth over the forecast period; (ii) the PRC social, economic and political environment is expected to remain stable in the forecast period; (iii) there will be no external shock, such as financial crisis or raw material shortage, which affects the demand and supply for Chinese medicine products (including, among others, CCMG products and Chinese healthcare products) in Hong Kong and the PRC during the forecast period; and (iv) key market drivers, such as increasing consumer awareness about CCMG products, growing ageing population, government supports to the CCMG product and Chinese healthcare product industries, are expected to continuously boost the development of the relevant markets in Hong Kong and the PRC. Our Directors and the Sole Sponsor have exercised reasonable care in reviewing and discussing with Euromonitor on such assumptions and factors, and believe that, to their satisfactions, there is no misleading information or material omission in disclosing such information.

All statistics are reliable and are based on information available as at the date of the Euromonitor Report. Other sources of information, including government, trade associates or market place participants, may have provided some of the information on which the analysis or data is based. As at the Latest Practicable Date, our Directors, after reasonable consideration, confirm that they were not aware of any adverse change to the market information since the date of the Euromonitor Report which may qualify, contradict or have an impact on the information in this section.

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REGULATORY OVERVIEW

This section sets out summaries of certain aspects of the laws, rules, regulations, government and industry policies and requirements, which are relevant to our operations and business in Hong Kong and the PRC.

LAWS AND REGULATIONS RELATING TO OUR BUSINESS OPERATIONS IN HONG KONG

Chinese Medicine Ordinance

Chinese Medicine Ordinance provides licensing requirements for the sale and distribution of our CCMG products and Chinese healthcare products, registration and licensing requirements of our Chinese healthcare products, and operations of our Nong's® (農本方)® Chinese medicine clinics.

Sale and Distribution of TCM

Pursuant to section 109(1) of the CMO, the Chinese herbal medicines specified in Schedule 1 to the CMO shall only be sold by retail or dispensed to persons by a retail license holder with the prescription of a registered Chinese medicine practitioner. Section 109(2) of the CMO provides that the sale or distribution of Chinese herbal medicines specified in Schedule 1 to the CMO by way of wholesale and possession for wholesale purposes shall only be conducted by a wholesale license holder. Any trading by way of retail or wholesale shall be conducted at the places specified in the aforesaid respective licenses.

Section 110 of the CMO also prohibits possession of any Chinese herbal medicine specified in Schedule 1 to the CMO unless the Chinese herbal medicine is possessed in accordance with the license granted by the Chinese Medicines Board under the CMO.

Pursuant to section 111(1) of the CMO, the Chinese herbal medicines specified in Schedule 2 to the CMO shall only be sold by retail, dispensed to persons or possessed for the purpose of retail by a retail license holder. Section 111(2) of the CMO provides that the sale or distribution of Chinese herbal medicines specified in Schedule 2 to the CMO by way of wholesale and possession for wholesale purposes shall only be conducted by a wholesale license holder.

Any person who contravenes section 109, 110 or 111 of the CMO commits an offence and is liable to a maximum fine of HK\$100,000 and imprisonment for two years.

Registration of CCMG products and Chinese Healthcare Products

Some of our CCMG products and Chinese healthcare products are classified as PCM and others are classified as non-PCM. The key differences between PCM and non-PCM lie on their ingredients, dosage forms and intended use. Under section 2 of the CMO, PCM is defined as any proprietary product composed solely of (i) any Chinese herbal medicines; (ii) any material of herbal, animal or mineral origin customarily used by Chinese, which should be documented in Chinese medicine classics or bibliographies, including but not limited to Pharmacopeia; or (iii) any medicine and

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materials referred to above, which is formulated in a finished dose form and is generally known or claimed to be used for the diagnosis, treatment, prevention or alleviation of any disease or for the regulation of the functional states of human body.

Section 119 of the CMO provides that no person shall sell, import or possess any PCM unless the PCM is registered with the Chinese Medicines Board. Application for registration of a PCM shall be submitted to the Department of Health in the manner prescribed in section 121 of the CMO. Pursuant to section 120 of the CMO, the application for registration of any PCM shall be made by the manufacturer of the PCM manufactured in Hong Kong, or by the importer or local representative or agent of the manufacturer of PCM manufactured outside Hong Kong.

Any person who contravenes section 119 of the CMO commits an offence and is liable to a maximum fine of HK\$100,000 and imprisonment for two years.

Manufacture, Sale and Distribution of CCMG Products and Chinese Healthcare Products

CMO provides that manufacturers and traders in PCM shall obtain a license issued by the Chinese Medicines Board.

Section 131 of the CMO provides that no person shall manufacture any PCM, whether registered or not, without a manufacturer license, or at any place other than the premises specified in such license. Section 134 of the CMO provides that no person shall sell or distribute by way of wholesale, or possess for the purpose of wholesale, any PCM without a wholesaler license in PCM, or at any place other than the premises specified in such license.

Any person who contravenes section 131 or 134 of the CMO commits an offence and is liable to a maximum fine of HK\$100,000 and imprisonment for two years.

Labelling Requirements and Package Inserts for Chinese Healthcare Products

Sections 143 and 144 of the CMO provide that a PCM shall not be sold or possessed for the purpose of selling in Hong Kong unless the package of the product is labelled in the prescribed manner and contains a package insert which complies with the prescribed requirements.

Pursuant to Regulations 26 and 28 of the Chinese Medicines Regulation (Chapter 549F of the Laws of Hong Kong) (the “Chinese Medicines Regulation”), all PCM shall be properly labelled and attached with package inserts. The label on a package of PCM shall include the following particulars: the name of the medicine; the name of each active ingredient used (if the PCM is composed of three or more kinds of active ingredients, the names of more than half of the active ingredients are required); the registration number on the certificate of registration; the holder of the registration certificate or the manufacturer (if the package is the outermost one, the name of the holder of the certificate of registration is necessary); the name of the country or territory in which the medicine is produced; the packing specification; dosage and method of usage; expiry date; and batch number. The package insert of the PCM shall include the following particulars: the name of the medicine; the name and quantity of each active ingredient used (if the PCM is composed of three or more kinds of active ingredients, the names and quantities of more than half of the active ingredients are required); the

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name of the holder of certificate of registration or the manufacturer; the dosage and method of usage; functions or pharmacological action; storage instructions; and packing specification. As for the indications, contra-indications, side effects, toxic effects and precautions, they should be included on the package insert as far as practicable.

Any person who contravenes section 143 or 144 of the CMO commits an offence and is liable to a maximum fine of HK\$100,000 and imprisonment for two years.

Operation of Chinese Medicine Clinics

Pursuant to sections 75 and 76 of the CMO, a person may only practise Chinese medicine if he is (i) a registered Chinese medicine practitioner who is registered under section 69 of the CMO with a practising certificate; (ii) a listed Chinese medicine practitioner under the transitional provisions listed under section 90 of the CMO; or (iii) a person with limited registration for treating patients in the course of educational or research purposes who is registered under section 85 of the CMO.

Under section 108(2) of the CMO, any person who is not a registered Chinese medicine practitioner or listed Chinese medicine practitioner practises Chinese medicine commits an offence and is liable to a fine of HK\$100,000 and imprisonment for two years, or on conviction upon indictment to imprisonment for five years.

Section 158 of the CMO exempts the registered Chinese medicine practitioners from obtaining licenses for dispensing Chinese herbal medicines listed in Schedule 1 to the CMO to persons on prescription.

Food Safety Ordinance

Food Safety Ordinance (Chapter 612 of the Laws of Hong Kong) (the “**Food Safety Ordinance**”) establishes a registration scheme for food importers and food distributors, to require the keeping of records by persons who acquire, capture, import or supply food and to enable food import controls to be imposed. As some of our Chinese healthcare products which are non-PCM fall within the definition of food, our Group is subject to the regulations under the Food Safety Ordinance.

Registration as Food Importer or Distributor

Sections 4 and 5 of the Food Safety Ordinance require any person who carries on a food importation business or food distribution business to register with the Food and Environmental Hygiene Department as a food importer or food distributor.

Any person who does not register but carries on a food importation or distribution business, without reasonable excuse, commits an offence and is liable to a maximum fine of HK\$50,000 and imprisonment for six months.

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Record-keeping Requirement relating to Supply of Food

Section 24 of the Food Safety Ordinance provides that a person who, in the course of business, supplies food in Hong Kong by wholesale shall record the following information about the supply: (i) the date the food was supplied; (ii) the name and contact details of the person to whom the food was supplied; (iii) the total quantity of the food; and (iv) a description of the food. Such record shall be made under this section within 72 hours after the time the supply took place.

Any person, who fails to comply with the record-keeping requirement without reasonable excuse or knowingly or recklessly includes in the record information that is false in a material particulars, commits an offence and is liable to a maximum fine of HK\$10,000 and imprisonment for three months.

Protection of Endangered Species of Animals and Plants Ordinance

Protection of Endangered Species of Animals and Plants Ordinance (Chapter 586 of the Laws of Hong Kong) (the “**Protection of Endangered Species of Animals and Plants Ordinance**”) provides that licenses shall be obtained for the import, re-export, export and possession of any product containing parts or derivatives of animals or plants of endangered species listed in Appendix I, II or III of Schedule 1 to the Protection of Endangered Species of Animals and Plants Ordinance.

Any person who fails to obtain the requisite licenses for such product and carries out the act (including possession or control of a specimen), whether by him or on his behalf, for commercial purposes, commits an offence and is liable to a maximum fine of HK\$500,000 and imprisonment of one year.

Import and Export Ordinance

Pursuant to sections 6C and 6D of the Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) (the “**Import and Export Ordinance**”) and Schedules 1 and 2 to the Import and Export (General) Regulations (Chapter 60A of the Laws of Hong Kong), any person who imports or exports any of the Chinese herbal medicines set out in Schedule 1 to the CMO and five specific types in Schedule 2 to the CMO (namely Flos Campsis (凌霄花), Processed Radix Aconiti (製川烏), Processed Radix Aconiti Kusnezoffii (製草烏), Radix Clematidis (威靈仙) and Radix Gentianae (龍膽)) as well as any PCM under the CMO shall apply for an import or export license.

Any person importing or exporting of the aforesaid Chinese herbal medicines and PCM without an import or export license commits an offence and is liable to a fine of HK\$500,000 and imprisonment for two years, or on conviction on indictment to a fine of HK\$2,000,000 and imprisonment for seven years.

Our Group does not conduct businesses in the import and export of any Chinese herbal medicines within the abovementioned categories. Therefore, our Group may import or export our CCMG products which do not fall within the abovementioned categories, subject to the requirement of providing manifest for each cargo under section 15 of the Import and Export Ordinance.

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Waste Disposal (Clinical Waste) (General) Regulation

Pursuant to regulation 3 of the Waste Disposal (Clinical Waste) (General) Regulation (Chapter 354O of the Laws of Hong Kong) (the “**Waste Disposal (Clinical Waste) Regulation**”), clinical waste as specified in Schedule 8 to the Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong) shall only be collected by licensed waste collectors or delivered by registered Chinese medicine practitioners to collection points in specific manners. Any person who fails to comply with such requirement commits an offence and is liable on conviction to a fine of HK\$200,000.

Furthermore, registered Chinese medicine practitioners who deliver the clinical waste to a collection point without a waste collection license shall do so in the manner specified under regulation 4 of the Waste Disposal (Clinical Waste) (General) Regulation. Any registered Chinese medicine practitioners who fails to comply with such requirements and his employer commit an offence and are liable on conviction to a fine of HK\$100,000.

Pursuant to regulation 12 of the Waste Disposal (Clinical Waste) Regulation, records of consignment to licensed waste collectors shall also be kept. Any person who contravenes such requirements commits an offence and is liable on conviction to a fine of HK\$100,000.

Waste Disposal (Chemical Waste) (General) Regulation

Pursuant to regulation 6 of the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong) (the “**Waste Disposal (Chemical Waste) Regulation**”), producers of chemical waste, which contains substances listed in Schedule 1 to the Waste Disposal (Chemical Waste) Regulation, shall be registered.

Pursuant to regulations 8 and 21 of the Waste Disposal (Chemical Waste) Regulation, such chemical waste shall only be collected by licensed waste collectors.

Any person who fails to comply with the requirement under regulation 6, 8 or 21 of the Waste Disposal (Chemical Waste) Regulation commits an offence and is liable on conviction to a maximum fine of HK\$200,000 and imprisonment for six months.

Public Health and Municipal Services Ordinance

The legal framework for food safety control in Hong Kong is set out in Part V of the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong) (the “**Public Health Ordinance**”) and the relevant sub-legislations thereunder. The Public Health Ordinance requires the manufacturers and sellers of food to ensure that their products are fit for human consumption and comply with the requirements in respect of food safety, food standards and labelling. As some of our Chinese healthcare products which are non-PCM fall within the definition of food, our Group is subject to the regulations under the Public Health Ordinance.

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Section 50 of the Public Health Ordinance prohibits manufacture, advertising and sale in Hong Kong of food or drugs that are injurious to health. Any person who fails to comply with this section commits an offence and is liable to a maximum fine of HK\$10,000 and imprisonment for three months.

Pursuant to section 52 of the Public Health Ordinance, subject to the statutory defences set out under section 53 of the Public Health Ordinance, where a seller sells to the prejudice of a purchaser any food or drug which is not of the nature, substance or quality of the food or drug demanded by the purchaser, the seller commits an offence and is liable to a maximum fine of HK\$10,000 and imprisonment for three months.

Pursuant to section 54 of the Public Health Ordinance, any person who sells or offers for sale any food intended for, but unfit for, human consumption, or any drug intended for use by human but unfit for the purpose, commits an offence and is liable to a maximum fine of HK\$50,000 and imprisonment for six months.

Section 61(1) of the Public Health Ordinance provides that it shall be an offence for any person who gives with any food or drug sold by him/her or displays with any food or drug exhibited for sale by him/her any label which falsely describes the food or drug or is calculated to mislead as to its nature, substance or quality. Furthermore, pursuant to section 61(2) of the Public Health Ordinance, it shall be an offence if any person publishes or is a party to the publication of an advertisement falsely describing any food or drug or is likely to mislead as to the nature, substance or quality of any food or drug. Any person who commits an offence under this section is liable to a maximum fine of HK\$50,000 and imprisonment for six months.

Food and Drugs (Composition and Labelling) Regulations

Food and Drugs (Composition and Labelling) Regulations (Chapter 132W of the Laws of Hong Kong) (the “**Food and Drugs Regulations**”), a subsidiary legislation under the Public Health Ordinance, regulates the advertising and labelling of food.

Regulation 3 of the Food and Drugs Regulations provides that the manufacturing of foods and drugs shall be up to the standards as specified under Schedule 1 to the Food and Drugs Regulations. Any person who advertises for sale, sells or manufactures for sale any food or drug which does not conform to the relevant requirements as to composition prescribed in Schedule 1 to the Food and Drugs Regulations commits an offence and is liable to a fine of HK\$50,000 and imprisonment for six months.

Regulation 4A of the Food and Drugs Regulations demands all pre-packaged food and products sold by the Group (except for those listed in Schedule 4 to the Food and Drugs Regulations) to be marked and labelled in the manner prescribed in Schedule 3 to the Food and Drugs Regulations. Schedule 3 to the Food and Drugs Regulations contains labelling requirements in respect of stating the product’s name or designation, ingredients, “best before” or “use by” date, special conditions for storage or instruction for use, manufacturer’s or packer’s name and address, and quantity, weight or volume, and also includes requirements on the appropriate language or languages for marking or labelling of prepackaged food. Any person who contravenes such requirements commits an offence and is liable to a fine of HK\$50,000 and imprisonment for six months.

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Pursuant to regulation 4B of the Food and Drugs Regulations, prepackaged food sold by the Group should be marked or labelled with its energy value and nutrient content in the manner prescribed in Part 1 of Schedule 5 to the Food and Drugs Regulations, and nutrition claims, if any, made on the label of the product or in any advertisement for the product should comply with Part 2 of Schedule 5 to the Food and Drugs Regulations. Contravention of those requirements may result in a conviction liable to a maximum fine of HK\$50,000 and imprisonment for six months.

Trade Marks Ordinance

Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong) (the “**Trade Marks Ordinance**”) provides for the registration of trademarks, the use of registered trademarks and related matters. As Hong Kong provides territorial protection for trademarks, trademarks registered in other countries or regions are not automatically entitled to protection in Hong Kong. In order to enjoy protection by the laws of Hong Kong, trademarks shall be registered with the Trade Marks Registry of the Intellectual Property Department under the Trade Marks Ordinance and the Trade Marks Rules (Chapter 599A of the Laws of Hong Kong) (the “**Trade Marks Rules**”).

Section 10 of the Trade Marks Ordinance provides that a registered trademark is a property right acquired through due registration under the Trade Marks Ordinance, through which the owner of a registered trademark is entitled to the statutory rights provided thereunder. For details of trademarks for which our Group is the registered owner and proprietor, please refer to the paragraph headed “B. Information about the Business — 2. Intellectual Property Rights of our Group” in the section headed “Statutory and General Information” in Appendix IV to this prospectus.

By virtue of section 14 of the Trade Marks Ordinance, the owner of a registered trademark is conferred exclusive rights in the trademark. The rights of the owner in respect of the registered trademark come into existence from the date of the registration of the trademark. Pursuant to section 48 of the Trade Marks Ordinance, the registration date is the filing date of the application for registration.

Subject to the exceptions under sections 19 to 21 of the Trade Marks Ordinance, any use of the trademark by third parties without the consent of the owner is an infringement of the trademark. Section 18 of the Trade Marks Ordinance further specifies the conducts which amount to infringement of the registered trademark. In event that infringement by any third party occurs, the owner of the registered trademark is entitled to remedies under the Trade Marks Ordinance, such as infringement proceedings under sections 23 and 25 of the Trade Marks Ordinance.

Trademarks which are not registered under the Trade Marks Ordinance and the Trade Marks Rules may still be protected by the common law action of passing off, which requires proof of the owner’s reputation in the unregistered trademark and that use of the trademark by third parties will cause damage to the owner.

Sale of Goods Ordinance

Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) (the “**Sale of Goods Ordinance**”) provides, *inter alia*, that where a seller sells goods in the course of a business, there is an implied condition that (i) where the goods are purchased by description, the goods shall correspond

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with the description; (ii) the goods supplied are of merchantable quality; and (iii) the goods shall be fit for the purpose for which they are purchased. Otherwise, a buyer has the right to reject the defective goods unless he or she has a reasonable opportunity to examine the goods. A breach of the implied term may give rise to a civil action for breach of contract by the customers. However, no criminal liability arises from such breach of implied term.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Wholly Foreign-Owned Enterprise Law

The establishment procedures, approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters with respect to wholly foreign-owned enterprises are governed by the Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated by the Standing Committee of the National People's Congress of the PRC ("NPC") on 12 April 1986 and amended on 31 October 2000, and the Implementation Rules for the Wholly Foreign-Owned Enterprise Law (《中華人民共和國外資企業法實施細則》), which were promulgated by the State Council on 12 December 1990 and amended on 12 April 2001 and was partly amended by Decision of the State Council on Repealing and Amending Some Administrative Regulations (2014) (《國務院關於廢止和修改部分行政法規的決定(2014)》) on 19 February 2014.

Catalogue of Industries for Guiding Foreign Investment (2015 edition) (《外商投資企業產業指導目錄(2015修訂)》)

On 10 March 2015, NDRC and MOFCOM jointly promulgated the 2015 edition of the Foreign Investment Catalogue (the "2015 Catalogue"), which became effective on 10 April 2015. Under the 2015 Catalogue, (i) the processing of traditional Chinese medicinal materials listed in the Regulations on Protection of Wild Medicinal Resources (《野生藥材資源保護管理條例》) and the Catalogue of China's Rare, Endangered and Protected Plants (《中國稀有瀕危保護植物名錄》); and (ii) the application of processing techniques of TCM decoction pieces (such as steaming, stir-frying, moxibustion, calcination and production of the products) using proprietary TCM secret prescription fall within the prohibited categories for foreign investment. Save as disclosed above, no industries with respect to the traditional Chinese medicine fall within the restricted category or prohibited category for foreign investment under 2015 Catalogue.

As we are engaged in the manufacture of CCMG products, and our business, including the manufacture of CCMG products, does not involve the processing of traditional Chinese medicinal materials listed in the Regulations on Protection of Wild Medicinal Resources and the Catalogue of China's Rare, Endangered and Protected Plants, or the application of processing techniques of TCM decoction pieces (such as steaming, stir-frying, moxibustion, calcination and production of the products) using proprietary TCM secret prescription, our business does not fall within the restricted category or prohibited category for foreign investment. Moreover, according to the confirmation letter issued by Department of Commerce of Guangxi Zhuang Autonomous Region on 2 February 2015, the business scope listed in the foreign investment enterprise approval certificate granted to PuraPharm Nanning does not include any prohibited category for foreign investment. Furthermore, the Guangxi Food and Drug Administration issued a confirmation letter on 16 February 2015, confirming that

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PuraPharm Nanning's business does not involve the processing of traditional Chinese medicinal materials listed in the Regulations on Protection of Wild Medicinal Resources and the Catalogue of China's Rare, Endangered and Protected Plants, and PuraPharm Nanning has not applied the processing techniques of TCM decoction pieces (such as steaming, stir-frying, moxibustion, calcination and production of the products) using TCM secret prescription. Based on the above, our PRC legal advisers, Jun He Law Offices, have advised us that PuraPharm Nanning's business does not fall within the prohibited or the restricted categories under the 2015 Catalogue.

Approval on Foreign Invested Projects

Pursuant to the Decision on the Reform of Investment System (《關於投資體制改革的決定》) promulgated by the State Council on 16 July 2004, the central government of the PRC has the power to determine whether the approval and/or filing procedure should apply to a specific foreign investment project. Accordingly, the State Council released the Catalogue of Investment Projects Approved by the Government (2004 Edition) (《政府核准的投資項目目錄(2004年本)》) (“**Government Approval Catalogue 2004**”) on 16 July 2004. On 2 December 2013, the State Council amended Government Approval Catalogue 2004 and released the Catalogue of Investment Projects Approved by the Government (2013 Edition) (《政府核准的投資項目目錄(2013年本)》) (“**Government Approval Catalogue 2013**”). Subsequently, the State Council further amended the Government Approval Catalogue 2013 and released the Catalogue of Investment Projects Approved by the Government (2014 Edition) (《政府核准的投資項目目錄(2014年本)》) (“**Government Approval Catalogue 2014**”). Under the Government Approval Catalogue 2014, any enterprise engaged in enterprise investment projects that fall under one or more listed items therein is subject to approval by the central government or competent local government (as the case may be). Enterprise investment projects other than those listed in the Governmental Approval Catalogue 2014 should be filed with the competent administrative department of the government.

On 17 May 2014, NDRC promulgated the Administrative Measures for Approval and Filing of Foreign Investment Projects (《外商投資項目核准和備案管理辦法》) (the “**Administrative Measures on Foreign Investment Projects**”). Pursuant to the Administrative Measures on Foreign Investment Projects, the foreign invested projects under the encouragement category with Chinese controlling stake requirement and total investment (including capital increase) of US\$300 million or above shall be approved by the NDRC, and the foreign invested projects under the encouragement category with Chinese controlling stake requirement and total investment (including capital increase) of less than US\$300 million shall be approved by the local government. Except the aforesaid projects, the foreign invested projects under the encouragement category are only subject to filing with the competent government authorities.

PRC LAWS AND REGULATIONS RELATING TO THE PHARMACEUTICAL INDUSTRY

Manufacture and Sale of Pharmaceutical Products

Pharmaceutical Manufacturing Permit

According to Pharmaceutical Administration Law of the PRC (《中華人民共和國藥品管理法》), effective on 1 December 2001 and as amended on 28 December 2013 and 24 April 2015, no pharmaceutical products should be produced without a pharmaceutical manufacturing permit. A

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manufacturer of pharmaceutical products should obtain a pharmaceutical manufacturing permit from the food and drug administration at provincial level before commencing its production of pharmaceuticals. Prior to granting such license, the relevant food and drug administration will inspect the manufacturer's production facilities, and determine whether the sanitary conditions, quality assurance system, management structure and equipment within the facilities have met the required standards. According to the Regulations for the Implementation of the Pharmaceutical Administration Law of the PRC (《中華人民共和國藥品管理法實施條例》), effective on 15 September 2002, a pharmaceutical manufacturing permit is valid for five years and may be renewed by the holder at least six months prior to its expiration date upon re-examination by the relevant authority.

Good Manufacturing Practices or GMP for pharmaceutical production

A manufacturer of pharmaceutical products and pharmaceutical materials must obtain GMP certification to produce pharmaceutical products and pharmaceutical materials in China. The Good Manufacturing Practice for Pharmaceutical Products (《藥品生產質量管理規範》) (the “**Chinese GMP**”) provides detailed guidelines on good manufacturing practices applicable to the production quality of pharmaceutical products. A GMP certification certifies that a manufacturer's factory has met certain criteria in the Chinese GMP which includes: institution and staff qualifications, production premises and facilities, equipment, hygiene conditions, production management, quality controls, product operation, maintenance of sales records and manner of handling customer complaints and adverse reactions.

Sale of Pharmaceutical Products

The Pharmaceutical Administration Law of the PRC (《中華人民共和國藥品管理法》) requires that enterprises which operate wholesale and retail sales of drugs shall obtain a pharmaceutical distribution permit. Therefore, all the distributors in the PRC that distribute our CCMG products are required to obtain a pharmaceutical distribution permit.

Manufacture of TCM Decoction Pieces

According to the GMP Supplementary Provisions on Traditional Chinese Medicine Decoction Pieces (《中藥飲片GMP補充規定》), effective on 30 January 2003, the TCM decoction pieces should apply GMP management. The Circular on Promoting the Supervision and Implementation of GMP Operation Relating to Chinese Traditional Medicine Decoction Pieces and other Categories (《國家食品藥品監督管理局關於推進中藥飲片等類別藥品監督實施GMP工作的通知》), effective on 26 October 2004, provided that all the manufacturers of TCM decoction pieces should produce the TCM decoction pieces in compliance with the GMP criteria with effect from 1 January 2008.

According to Provisional Regulations on the Administration of Concentrated Chinese Medicine Granules (《中藥配方顆粒管理暫行規定》), effective on 5 July 2001, CCMG products shall be brought into the scope of administration of TCM decoction pieces from 1 December 2001, and shall be subject to management by approval document numbers. Before commencing the implementation of management by approval document numbers, CCMG production operation was still at the scientific research stage, the research and manufacture of CCMG products shall be operated by the selected pilot enterprises and the trial use shall be conducted at pilot clinical hospitals. Pilot manufacturers,

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varieties of the products, clinical hospitals shall be selected across the nation. A pilot manufacturer of CCMG products shall file the list of clinical hospitals using CCMG products with the Provincial FDA of the place where these hospitals are located. The pilot manufacturer of CCMG products must (i) have obtained the pharmaceutical manufacturing permit, (ii) have applied to the authority at the provincial or ministry level for establishment of scientific research project on CCMG products and achieved periodical results, and (iii) have manufactured over 400 varieties of CCMG products.

The manufacturer of the CCMG product that fails to obtain the qualification of pilot manufacturer is prohibited from manufacturing CCMG products, and clinical hospital that fails to file with the relevant Provincial FDA is prohibited from selling and using the CCMG product. Otherwise, the competent food and drug administration has the authority to suspend the clinical use of CCMG products at the hospital or medical institution.

According to the Measures on the Administration of Pharmaceutical Product Registration (《藥品註冊管理辦法》), which were promulgated by the CFDA on 10 July 2007, new pharmaceutical products refer to those pharmaceutical products which have not been launched in the PRC market. All new pharmaceutical products must undergo four phases before the relevant product is approved for launching: pre-clinical research, application for clinical trials, clinical trials and approval for production.

The Measures on the Administration of Pharmaceutical Product Registration also provide that the registration of traditional Chinese medicinal materials, traditional Chinese herbal medicines (or called TCM decoction pieces) and approved imported traditional Chinese medicinal materials shall be subject to other regulations promulgated by the CFDA. As CCMG products are subject to the similar administrative system as traditional Chinese herbal medicines, CCMG products do not need to undergo clinical trials in four phases which are required for new pharmaceutical products before they are launched in the China market. According to the Provisional Regulations on the Administration of Concentrated Chinese Medicine Granules, where CCMG production is still at the scientific research stage, research and manufacture of the CCMG products shall be conducted by pilot manufacturers and the CCMG products shall be used only by pilot clinical hospitals. In this regard, CCMG products may be manufactured by CFDA-licensed pilot manufacturers (such as our Group) and sold for clinical use in the hospitals and medical institutions that have been approved by the relevant Provincial FDAs.

Pharmaceutical Products Price Control

According to *The Opinions on the Drug Price Administration Reform* (《國家發展計劃委員會關於改革藥品價格管理的意見》), promulgated by State Development Planning Commission on 20 July 2000, drugs listed in Medicines Catalogue for National Basic Medical Insurance and a number of special pharmaceutical products (including psychotropic substances, anesthesia, immunization, drug for family planning and other drugs produced and supplied by a national planning scheme) shall be subject to government price control. On the other hand, the pricing of the other drugs and special pharmaceutical products can be determined by the market.

According to the Notice on Issuing Opinions on Promoting Drug Price Reform (《關於印發推進藥品價格改革意見的通知》) which was implemented on 1 June 2015, a new drug pricing framework will be established. Under the new drug pricing framework, all drug prices, save for narcotic drugs and type I psychotropic drugs prices, previously formulated by the PRC government will be invalidated.

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Since CCMG products are not listed in the Medicines Catalogue for National Basic Medical Insurance, the government price control is not applicable to CCMG products. Therefore, the issuance of *the Notice on Issuing Opinions on Promoting Drug Price Reform* has no material effect on the price of our CCMG products.

Pharmaceutical Products Procurement for Public Hospitals

The Guiding Opinions of the General Office of the State Council on Improving Centralized Drug Purchasing of Public Hospitals (*《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》*) implemented on 9 February 2015 encourages public hospitals to directly settle the drug payments with corresponding drug manufacturing companies and encourages drug manufacturing companies to directly settle the distribution and delivery expenses with the distributors. Drug manufacturing companies are responsible to guarantee the quality and supply of the drugs. All drugs used in the hospital (excluding TCM decoction pieces) should be procured through a tendering process via the provincial-level platform for centralized procurement of drugs. Drug manufacturing companies or competent drug distributors that have successfully tendered will distribute drugs to designated hospitals directly.

According to the *Provisional Regulations on the Administration of Concentrated Chinese Medicine Granules*, CCMG production is still at the scientific research stage, and CCMG products shall be used only by pilot clinical hospitals. Therefore, the procurement of our CCMG products can only be conducted by those pilot clinical hospitals for clinical use, which means our CCMG products are not within the scope of the centralized drug purchasing of public hospitals. Accordingly, the *Guiding Opinions of the General Office of the State Council on Improving Centralized Drug Purchasing of Public Hospitals* does not apply to the sale of our CCMG products.

Import and Export of Endangered Species of Wild Fauna and Flora

According to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (“CITES”) that came into force on 1 July 1975, the import and export of any specimen of a species included in the three appendices thereto shall require the prior consent and presentation of an import permit or export permit. The PRC signed the CITES and became a party to the Convention in 1981. To implement the CITES, the PRC government promulgated the Catalogue of Import and Export of Wild Fauna and Flora Species (*《進出口野生動植物種商品目錄》*) (“**Catalogue of Wild Fauna and Flora**”) on 1 January 1998, Regulation on the Administration of the Import and Export of Endangered Wild Fauna and Flora (*《瀕危野生動植物進出口管理條例》*) on 29 April 2006 and Measures for the Administration of Wild Fauna and Flora Import and Export Certificate of the PRC (*《野生動植物進出口證書管理辦法》*) on 9 February 2014. These laws and regulations require an entity to obtain the export and import certificate before it (i) exports or imports any endangered wild fauna and flora that are restricted under the CITES and their by-products; or (ii) exports or imports any key protected national wild fauna and flora listed in the Catalogue of Wild Fauna and Flora and their by-products. The export and import certificate shall record the species and quantities of the wild fauna and flora and relevant by-products to be exported or imported for the specific batch, the ports of import and export, the offshore purchaser or seller of such species, and the expiry date of such certificate.

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PRC LAWS AND REGULATIONS RELATING TO HEALTHCARE FOOD

The Administrative Measures on Healthcare Food (《保健食品管理辦法》) effective on 1 June 1996, set out regulations with respect to the approval of healthcare food, the manufacturing of healthcare food, the labelling, direction of usage and advertising promotions of healthcare food, the supervision and management of healthcare food and relevant penalties. The Administrative Measures on the Registration of Healthcare Food (for Trial Implementation) (《保健食品註冊管理辦法(試行)》) that came into force on 1 July 2005 set out regulations with respect to application and approval, the application and approval of product registration, alterations of application and approval, application and approval for registration of technologically-transferred products, raw materials and semi-finished products, labelling and direction of usage, product trials and testing, re-registration and reviews as well as legal obligations.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

Foreign Exchange Administration

Under the Foreign Currency Administration Rules of the PRC (《中華人民共和國外匯管理條例》) which was promulgated by the State Council on 29 January 1996 became effective on 1 April 1996 and as amended on 1 January 1997 and 5 August 2008, and various regulations issued by SAFE, RMB may be converted into foreign currencies without approval for the purpose of current account items, including the distribution of dividends and interest payments, as well as trade and service-related foreign exchange transactions. Conversion of RMB into other currencies for capital account items, such as direct investments, loans, securities investments and repatriation of investments, however, is still subject to the approval of the SAFE or its competent local branches. Under the Foreign Currency Administration Rules of the PRC, enterprises may only buy, sell or remit foreign currencies at those banks authorised to conduct foreign exchange business after providing valid commercial documents and relevant supporting documents and, in the case of capital account item transactions, obtaining approval from the SAFE or its competent local branches. Capital investments by enterprises outside of the PRC are also subject to limitations, which include approvals by the MOFCOM, the SAFE and the NDRC, or their respective competent local branches.

Pursuant to the Notice of the SAFE on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業資金結匯管理方式的通知》) which came into effect on 1 June 2015, foreign-invested enterprises are allowed to settle foreign exchange capitals on a discretionary basis; the foreign-invested enterprises may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis. The SAFE may adjust the foregoing percentage as appropriate based on prevailing international balance of payments.

On 19 November 2012, the SAFE promulgated the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》, the “**Circular No. 59**”), which became effective on 17

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December 2012. The Circular No. 59 substantially amends and simplifies the current foreign exchange procedure. According to the Circular No. 59, the opening of various special purpose foreign exchange accounts no longer requires SAFE's approval or verification, and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation of investment or share transfer in a foreign invested enterprise no longer requires SAFE's approval.

Dividend Distribution

The principal laws governing dividend distributions by our PRC subsidiary include the Company Law of the PRC (《中華人民共和國公司法》), which was promulgated on 29 December 1993 and became effective on 1 July 1994 and was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. Dividend distribution by a wholly foreign-owned enterprises (“WFOE”) is further governed by the Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), which was promulgated on 12 April 1986 and revised on 31 October 2000, and its Implementation Regulations (《中華人民共和國外資企業法實施細則》) were promulgated on 12 December 1990 and revised on 12 April 2001 and 19 February 2014.

PRC companies may pay dividends only out of their accumulated profits, if any, which are determined in accordance with PRC accounting standards. In addition, PRC companies are required to set aside each year at least 10% of their after-tax profit based on PRC accounting standards to their statutory general reserve fund until the cumulative amount of such reserve fund reaches 50% of their registered capital. These reserves are not distributable as cash dividends. Furthermore, a WFOE in the PRC may also be required to set aside individual funds for employee welfare, bonuses and development at its discretion and as stipulated in their articles of association. These reserves or funds are not distributable as dividends.

PRC LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

Trademark Law

As required by the Trademark Law of the PRC (《中華人民共和國商標法》), which became effective on 1 March 1983 and was amended on 27 October 2001 and 30 August 2013, and Regulation for the Implementation of Trademark Law of the PRC (《中華人民共和國商標法》), which was promulgated on 3 August 2002, was amended on 29 April 2014 and came into effect on 1 May 2014, the Trademark Office (the “Trademark Office”) of the State Administration For Industry & Commerce (國家工商行政管理總局) (“SAIC”) shall be responsible for the registration and administration of trademarks throughout the country. The Trademark Review and Adjudication Board of the SAIC shall be responsible for hearing trademark disputes.

Registered trademarks refer to trademarks that have been approved and registered by the Trademark Office, which include commodity trademarks, service trademarks, collective marks and certification marks. The trademark registrant shall enjoy an exclusive right to use the trademark, which shall be protected by law. Any visible mark in the form of word, graphic, alphabet, number, 3D (three-dimension) mark, colour combination or the combination of these elements that can distinguish the commodities of the natural person, legal person or other organisations from those of others can be registered as a trademark. Trademark for which an application is filed for registration shall be as

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distinctive as to be distinguishable, and shall not go against the legitimate right previously obtained by others. A trademark registrant is entitled to tag the words “Registered Trademark” or a sign indicating that it is registered.

Patent Law

Patents in the PRC are mainly protected under the Patent Law of the PRC (《中華人民共和國專利法》), which was promulgated by the Standing Committee of the NPC on 12 March 1984 and amended on 4 September 1992, 25 August 2000 and 27 December 2008, and its implementation rules (《中華人民共和國專利法實施細則》), which was promulgated by the State Council on 15 June 2001 and amended on 28 December 2002 and 9 January 2010. The Patent Law of the PRC and its implementation rules provide for three types of patents, “invention”, “utility model” and “design”. “Invention” refers to any new technical solution relating to a product, a process or improvement thereof; “utility model” refers to any new technical solution relating to the shape, structure, or their combination of a product, which is suitable for practical use; and “design” refers to any new design of the shape, pattern, colour or the combination of any two of them of a product, which creates an aesthetic feeling and is suitable for industrial application. The duration of a patent right for “invention” is 20 years, and the duration of a patent right for “utility model” or “design” is 10 years, from the date of application.

PRC LAWS AND REGULATIONS RELATING TO TAXATION

Enterprise Income Tax Law

According to the PRC EIT Law, which was promulgated on 16 March 2007 and became effective from 1 January 2008, the income tax for both domestic and foreign-invested enterprises is at a uniform rate of 25%. The Regulation on the Implementation 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》) was promulgated on 6 December 2007 and became effective from 1 January 2008.

Under the EIT Law, enterprises are classified as either “resident enterprises” or “non-resident enterprises”. Enterprises established under foreign law with “de facto management bodies” outside the PRC but have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income originating from the PRC are considered as “non-resident enterprises”, which shall pay income tax at the rate of 10% in relation to the income originating from the PRC unless a tax treaty benefit can be claimed. Enterprises established under the laws of foreign countries or regions whose “de facto management organisation” located within the PRC territory are considered as “resident enterprises”, and thus generally be subject to the EIT at the rate of 25% on their global income. The implementing rules of the EIT Law define “de facto management” as “bodies that substantially carry out comprehensive management and control on production and operation, employees, accounts and assets of enterprises”.

Moreover, pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the 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稅避免雙重徵稅和防止偷漏稅的安排》), a PRC resident enterprise which distributes dividends to its Hong Kong shareholders should

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pay income tax according to PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity interests of the aforesaid enterprise, the tax levied shall be 10% of the distributed dividends.

Value Added Tax

According to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》), which was promulgated by the State Council, came into effect on 1 January 1994, was further amended on 10 November 2008 and came into effect on 1 January 2009, and the Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the PRC (Revised in 2011) (《中華人民共和國增值稅暫定條例實施細則(2011年修訂)》), which was promulgated by the MOF and the SAT on 15 December 2008 and amended on 28 October 2011 and came into effect on 1 November 2011, all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, and the import of goods within the PRC must pay the VAT.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Certain PRC environmental laws and regulations are applicable to our production, mainly including the PRC Environmental Protection Law (《中華人民共和國環境保護法》), Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (《中華人民共和國環境噪聲污染防治法》), Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and the PRC Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》), all of which form the legal framework for environmental protection in the PRC.

On 24 April 2014, the Standing Committee of the PRC National People's Congress amended the Environmental Protection Law which came into force on 1 January 2015. The new Environmental Protection Law imposes more stringent punishment on any violation of environmental protection law, among others, (i) if an entity fails to make rectification after it is imposed a fine penalty and ordered to make rectification due to its illegal discharge of pollutants, the competent environmental authority may impose fines on such entity continuously on a daily basis, and (ii) if an entity fails to submit the environmental impact assessment document for its construction project or commences construction without obtaining the approval of the environmental impact assessment document, the competent environmental authority will order the entity to stop construction, impose a fine penalty, and order the entity to restore the construction project to its original status.

The PRC Environmental Impact Assessment Law (《中華人民共和國環境影響評價法》), which was promulgated by the Standing Committee of the NPC and became effective on 1 September 2003, the Administration Rules on Environmental Protection of Construction Projects (《建設項目環境保護管理條例》), which were promulgated by the State Council and became effective on 29 November 1998, and the Measures for the Administration of Examination and Approval of Environmental

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Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which were promulgated by the State Environmental Protection Administration of the PRC and became effective on 1 February 2002 and amended on 22 December 2010, require enterprises planning construction projects to engage qualified professional institution to provide assessment documents on the environmental impact of such projects. The assessment documents must be approved by the competent environmental protection authorities prior to commencement of any construction work. Enterprises shall file an application for examination and acceptance of the environmental protection facilities upon the completion of the construction project. A construction project may formally commence production or use only if the corresponding environmental protection facilities have passed the acceptance examination.

According to the List of Systematic Management on Construction Projects Impact Assessment (the “List”) (《建設項目環境影響評價分類管理名錄》), promulgated by the Ministry of Environmental Protection and became effective on 1 October 2008 and replaced by the List updated in 2015, the State has implemented the classification management system based on the project’s impact on the environment. Construction enterprises shall submit the environmental impact assessment report, the environmental impact report form or fill in the environmental impact registration form, in accordance with the classification of the List.

PRC LAWS AND REGULATIONS RELATING TO LABOUR

Employment Contracts

According to the Labour Law of the PRC (《中華人民共和國勞動法》) promulgated on 5 July 1994 and effective on 1 January 1995, enterprises and institutions shall establish and improve their systems of work place safety and sanitation and strictly abide by state rules and standards on work place safety. Labour safety and sanitation facilities shall comply with statutory standards. Enterprises and Institutions shall provide employees with a safe work place and sanitation conditions which are in compliance with relevant laws and regulations of labour protection.

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 NPC on 29 June 2007 and came into effect on 1 January 2008 and was amended on 28 December 2012. In order to implement the Employment Contract Law, Implementation Regulations of the Labour Contract Law of the PRC (《中華人民共和國勞動法實施條例》) was promulgated by the State Council of the PRC on 18 September 2008. The Employment Contract Law is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labour contracts. The newly amended Employment Contract Law which became effective on 1 July 2013 imposes more stringent requirements on labour despatch and more stringent penalties on unlawful labour despatch practices. According to the amendments, the number of contract workers hired by an employer may not exceed a certain percentage of the total number of employees and the contract workers can only engage in temporary, auxiliary or substitutive work. The amended Labour Contract Law also requires contract workers be entitled to the same remuneration and rights as full-time employees. In the event that an employer has caused a despatched worker to suffer any damage, the labour despatch entity and the employer shall jointly and severally bear compensation liability to such worker.

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Employee Funds

As required under the Regulation of Insurance for Labour Injury (《工傷保險條例》), which was promulgated on 20 December 2010 and became effective on 1 January 2011, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》), implemented on 1 January 1995, the Decisions on the Establishment of a Unified Programme for Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》), issued on 16 July 1997, the Decisions on the Establishment of the Basic Medical Insurance Programme for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》), promulgated on 14 December 1998, the Unemployment Insurance Regulation (《失業保險條例》), promulgated on 22 January 1999, and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), implemented on 1 July 2011, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance.

Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a 0.05% overdue fine. If the overdue amount is still not settled within the stipulated time period, an additional fine equivalent to an amount of one to three times of the overdue amount will be imposed.

According to the Regulation on Management of Housing Provident Fund (《住房公積金管理條例》), which was promulgated by the State Council on 3 April 1999, became effective on the same day and was amended on 24 March 2002, enterprises must register with the competent managing centre for housing provident funds and, upon the examination by such managing centre of housing provident fund, complete procedures for opening an account at the relevant bank for the deposit of employees' housing provident funds. Employers are required to contribute, on behalf of their employees, to housing provident funds. The payment is required to be made to local administrative authorities. Any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

PRC LAWS AND REGULATIONS RELATING TO ANTI-CORRUPTION

There is no uniform anti-corruption or anti-bribery law in the PRC. The relevant provisions on anti-corruption and anti-bribery are contained in different PRC laws, regulations, judicial interpretations and governmental disciplines.

Pursuant to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) effective on 1 December 1993, a business operator shall not offer money, property or other means of bribery for purposes of selling or purchasing goods.

REGULATIONS

On 15 November 1996, the State Administration for Industry and Commerce promulgated the Interim Provisions on the Prohibition of Commercial Bribery (“**Interim Provisions**”) (《關於禁止商業賄賂行為的暫行規定》), which elaborate the meaning of “commercial bribery” as an act of offering money or “property” or “other means” of bribery for purposes of selling or purchasing goods, among which, the “property” refers to cash or physical assets paid by a business operator to another entity or individual concealed under promotion, publicity, sponsorship, scientific research, labour, consultancy, or other such expenses, and “other means” refer to the means used to provide any types of benefits other than “property”, such as offering domestic or international tours. If a company commits commercial bribery, the competent authority will confiscate any illegal income and impose a fine of up to RMB200,000.

In addition, the PRC Pharmaceutical Administrative Law (《中華人民共和國藥品管理法》) prohibits a pharmaceutical company from offering any property or benefit to the responsible persons, medicine procurement staff or doctors of a medical institution. If a pharmaceutical manufacturing company commits commercial bribery, its pharmaceutical manufacturing permit shall be revoked.

According to the PRC Criminal Law (《中華人民共和國刑法》), as amended, which became effective on 1 October 1997, the act of offering money or property to the staff of a company, enterprise or other entity in large amounts shall constitute an act of “bribery to non-governmental officials”. The entity that is found guilty of bribery involving non-governmental officials will be liable to a penalty/fine, and its direct responsible person may be subject to imprisonment up to three years.

According to the Provisions on the Establishment of Commercial Bribery Adverse Record regarding the Purchase of Medical Products (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》) issued by the National Health and Family Planning Commission on 25 December 2013 and became effective on 1 March 2014, if a pharmaceutical company commits bribery, it may be added to a list of entities engaged in prohibited commercial bribery maintained at the provincial level. If a pharmaceutical company is added to such list, the state-owned medical institutions and the medical institutions receiving government grants within the relevant provinces are not allowed to purchase pharmaceutical products from such company for two years following the publication of such list. Furthermore, if a pharmaceutical company is added to such list twice within five years, no state-owned medical institutions and medical institutions receiving government grants in the PRC shall be permitted to purchase any pharmaceutical products from such company for two years following the publication of the second list containing the name of such pharmaceutical company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

HISTORY AND DEVELOPMENT

Our history can be traced back to the incorporation of PuraPharm HK by our founder Mr. Chan in Hong Kong in 1998 through his own personal funds. Seeing a significant potential in the TCM market in Hong Kong and other countries, we began the manufacture, sale, research and development of TCM products. We commenced to sell our CCMG products in Hong Kong through our Nong's® (農本方)® brand in 1999 and built our current CCMG product production facility in Nanning, Guangxi Zhuang Autonomous Region in 2004.

To complement our CCMG product business, we also developed Chinese healthcare products. We launched our PuraGold (金靈芝)®, a product which we jointly developed with the Hong Kong Baptist University, and Oncozac (安固生)®, a product which we jointly developed with The Chinese University of Hong Kong, in 1999 and 2003, respectively.

In recognition of our leading role in the TCM industry and the quality of our products, in 2004, we were selected as one of the then six pilot manufacturers and the only non-PRC company licensed by the CFDA to manufacture and sell CCMG products in China. Since 2004, we have supplied our CCMG products to the Hong Kong Hospital Authority. As at the Latest Practicable Date, we were the sole supplier of CCMG products to the Hong Kong Hospital Authority. We are approved by the Hong Kong Hospital Authority to sell CCMC products to 18 public hospitals and Chinese medicine clinics under the administration of the Hong Kong Hospital Authority.

Since our establishment, our core values have always been to modernise and internationalise TCM and to bring good health to the public. In 2011, as part of our strategy to expand into clinic operations, we opened two Chinese medicine clinics under our Nong's® (農本方)® brand in Hong Kong. As at the Latest Practicable Date, we had established 13 Nong's® (農本方)® clinics mainly within shopping malls across Hong Kong. The Nong's® (農本方)® Chinese medicine clinics are operated by registered TCM practitioners who use our CMCMS to prescribe our CCMG products to patients.

BUSINESS MILESTONES

The following is a summary of our key business development milestones:

- | | |
|------|--|
| 1998 | <ul style="list-style-type: none">• Our Group was founded by Mr. Chan. |
| 2002 | <ul style="list-style-type: none">• In recognition of our research and development expertise, we were selected by the State of Administration of Traditional Chinese Medicine to undertake the CCMG combination formulation research project to review and advise on the use of CCMG combo formulae products in China. |
| 2004 | <ul style="list-style-type: none">• We were selected as one of the then six pilot manufacturers licensed by the CFDA to manufacture and sell CCMG products in China.• We became a CCMG product supplier of the Hong Kong Hospital Authority. |

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- We began to sell our CCMG products to mobile clinics operated by our non-profit organisation customers.
- 2009
- Our testing laboratory was certified by the CNAS, an international multilateral recognition system that is equivalent to an accreditation in accordance with the ISO 17025 standards.
 - Our ONCO-Z coriolus versicolor extract, the sole ingredient of one of our Chinese healthcare products, Oncozac® (安固生)®, was verified by USP as dietary ingredient and became the world’s first TCM ingredient verified by the USP. The USP medicine standards are widely recognised as one of the most strict quality control standards for assessment of the identity, strength, quality, and purity of medicines.
- 2010
- We obtained GMP certifications from the TGA, which is widely regarded as the most stringent certification standard in the world.
- 2011
- We were awarded “Top Five Companies of Proprietary Chinese Medicine Exports 2011”.
- 2014
- We entered into a distribution framework agreement with Sinopharm International, a Hong Kong subsidiary of Sinopharm, which is one of the largest distributors of pharmaceutical and healthcare products in China, pursuant to which Sinopharm International agreed to distribute our CCMG products in China.

CORPORATE DEVELOPMENT

Set forth below are details of subsidiaries which made material contribution to our results during the Track Record Period:

Name (Date of incorporation and commencement of business)	Our Group’s ownership as at the Latest Practicable Date	Principal Activity
PuraPharm Nanning Established and commenced business on: 19 August 1998	100%	Manufacturing and trading of CCMG products and Chinese healthcare products
PuraPharm HK Incorporated and commenced business on: 4 May 1998	100%	Manufacturing and trading of Chinese healthcare products
Nong’s Company HK Incorporated and commenced business on: 26 June 2002	100%	Trading of CCMG products and Chinese healthcare products

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Name (Date of incorporation and commencement of business)	Our Group's ownership as at the Latest Practicable Date	Principal Activity
Nong's Corporation Incorporated and commenced business on: 22 August 2000	100%	Investment holding
PuraPharm Health Incorporated and commenced business on: 22 December 2010	100%	Investment holding

As at the Latest Practicable Date, our Group had either incorporated or acquired operating subsidiaries to carry out our business. Major shareholding changes of members of our Group which were material to the performance of our Group during the Track Record Period are set out below:

Nong's Corporation

Nong's Corporation was incorporated in the BVI on 22 August 2000. On 10 November 2000, one share was allotted and issued at par to PuraPharm Corp.. On 31 December 2002 and 14 September 2004, Nong's Corporation further allotted and issued 1,282 and 11,547 shares at par to PuraPharm Corp., respectively. On 14 September 2004, Nong's Corporation further allotted and issued 3,849 shares to Designcase Limited, an Independent Third Party, at a total consideration of HK\$24,000,000, which was determined with reference to the agreed valuation of Nong's Corporation at the time of the transfer. Upon completion of such allotment, Nong's Corporation was owned as to 76.92% by PuraPharm Corp. and 23.08% by Designcase Limited.

Subsequent to a series of share transfers and allotments by the shareholders of Nong's Corporation at the relevant time which took place between December 2009 to March 2010, Nong's Corporation became owned as to 51.29% by PuraPharm Corp., 33.33% by Fullgold Development and 15.38% by Designcase Limited.

With a view to realising its investment in Nong's Corporation, on 7 May 2010, Designcase Limited entered into a sale and purchase agreement with, amongst others, Joint Partners, pursuant to which Designcase Limited agreed to transfer its entire interest in Nong's Corporation to Joint Partners at a consideration of HK\$24,000,000, which was determined with reference to Designcase Limited's cost of investment in Nong's Corporation. Upon completion of such transfer on 28 May 2010, Nong's Corporation became owned as to 51.29% by PuraPharm Corp., 33.33% by Fullgold Development and 15.38% by Joint Partners.

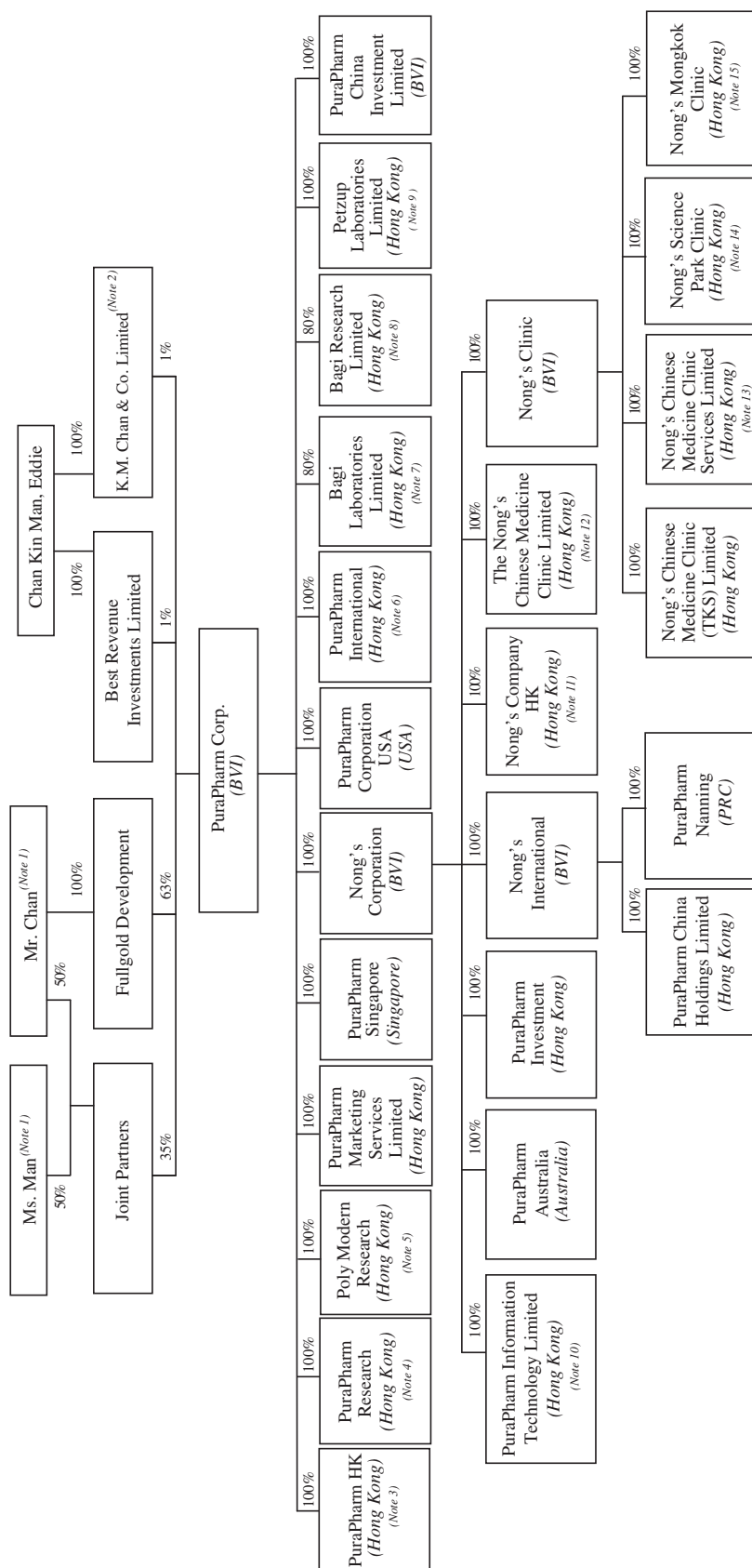
Subsequent to a series of share transfers and as part of the Reorganisation, Nong's Corporation became our wholly owned subsidiary.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

REORGANISATION

In December 2010, we commenced the Reorganisation in preparation for the Global Offering.

The following chart sets forth our corporate and shareholding structure immediately before the Reorganisation:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Ms. Man is the spouse of Mr. Chan.
- (2) Wellson Nominees Limited holds 1% interest in K.M. Chan & Co. Limited on trust for Chan Kin Man, Eddie.
- (3) Prior to the Reorganisation, Mr. Chan held 0.01% interest in PuraPharm HK on trust for PuraPharm Corp..
- (4) Prior to the Reorganisation, Mr. Chan held 0.01% interest in PuraPharm Research on trust for PuraPharm Corp..
- (5) Prior to the Reorganisation, Mr. Chan held 0.01% interest in Poly Modern Research on trust for PuraPharm Corp..
- (6) Prior to the Reorganisation, Mr. Chan held 50% interest in PuraPharm International on trust for PuraPharm Corp..
- (7) The remaining 20% interest in Bagi Laboratories Limited was held by Chan Piu, a cousin of Mr. Chan.
- (8) The remaining 20% interest in Bagi Research Limited was held by Golden Gain Development Limited, a company wholly owned by Mr. Chan.
- (9) Prior to the Reorganisation, Mr. Chan held 0.01% interest in Petzup Laboratories Limited on trust for PuraPharm Corp..
- (10) Prior to the Reorganisation, Mr. Chan held 0.01% interest in PuraPharm Information Technology Limited on trust for Nong's Corporation.
- (11) Prior to the Reorganisation, Mr. Chan held 50% interest in Nong's Company HK on trust for Nong's Corporation.
- (12) Prior to the Reorganisation, Mr. Chan held 0.01% interest in The Nong's Chinese Medicine Clinic Limited on trust for Nong's Corporation.
- (13) Prior to the Reorganisation, Mr. Chan held 50% interest in Nong's Chinese Medicine Clinic Services Limited on trust for Nong's Clinic.
- (14) Prior to the Reorganisation, Mr. Chan held 50% interest in Nong's Science Park Clinic on trust for Nong's Clinic.
- (15) Prior to the Reorganisation, Mr. Chan held 0.01% interest in Nong's Mongkok Clinic on trust for Nong's Clinic.
- (16) The trust arrangements in notes 3 to 6 and 9 to 15 above were entered into due to the requirement under the then effective predecessor Companies Ordinance that a limited liability company incorporated in Hong Kong must have at least two shareholders.

Incorporation of our Company

Our Company was incorporated in the Cayman Islands on 2 December 2011 to act as the holding company of our Group. The initial authorised share capital of our Company was US\$50,000 divided into 50,000 shares of US\$1.00 each. Upon incorporation, PuraPharm Corp. acquired one Share from the initial subscriber at par, representing the entire issued share capital of our Company.

Restructuring and incorporation of intermediate holding companies for our Group

PuraPharm Holdings

PuraPharm Holdings was incorporated in the BVI on 22 December 2010 and the authorised share capital of PuraPharm Holdings was 50,000 shares with a par value of US\$1.00 each. Upon incorporation, the entire issued share capital of PuraPharm Holdings was held by PuraPharm Corp.. As part of the Reorganisation, on 30 April 2012, our Company acquired the entire issued share capital of PuraPharm Holdings from PuraPharm Corp. for a consideration of US\$1.00, which was determined with reference to the par value of the share transferred. PuraPharm Holdings is an investment holding company.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

PuraPharm Health

PuraPharm Health was incorporated in the BVI on 22 December 2010 and the authorised share capital of PuraPharm Health was 50,000 shares with a par value of US\$1.00 each. On 7 June 2011, one share was allotted and issued to PuraPharm Holdings, representing the entire issued share capital of PuraPharm Health. PuraPharm Health is an investment holding company.

Acquisition of Nong's Corporation by PuraPharm Holdings from PuraPharm Corp.

On 13 June 2011, PuraPharm Holdings acquired the entire issued share capital of Nong's Corporation from PuraPharm Corp. for a consideration of HK\$38,030,356.00, which was determined with reference to the investment cost of PuraPharm Corp. in Nong's Corporation. Upon completion of such acquisition, Nong's Corporation became a direct wholly owned subsidiary of PuraPharm Holdings.

Acquisitions of certain subsidiaries

The following table sets forth the details of acquisitions of certain subsidiaries undertaken pursuant to the Reorganisation:

Companies acquired	Transferor	Transferee	Interest acquired	Consideration
PuraPharm Singapore ⁽¹⁾	PuraPharm Corp.	PuraPharm Health	100%	S\$2.00 ⁽⁶⁾
PuraPharm Research ⁽²⁾	PuraPharm Corp.	PuraPharm Health	99.99% ⁽⁸⁾	HK\$9,999.00 ⁽⁶⁾
Natural Corporation ⁽¹⁾	Mr. Chan	PuraPharm Health	99%	HK\$99.00 ⁽⁶⁾
	Ms. Man		1%	HK\$1.00 ⁽⁶⁾
PuraPharm International ⁽¹⁾	PuraPharm Corp.	PuraPharm Health	50% ⁽⁹⁾	HK\$1.00 ⁽⁶⁾
PuraPharm Marketing Services Limited ⁽³⁾	PuraPharm Corp.	PuraPharm Health	100%	HK\$100.00 ⁽⁶⁾
PuraPharm HK ⁽⁴⁾	PuraPharm Corp.	PuraPharm Health	99.99% ⁽¹⁰⁾	HK\$1,999,999.00 ⁽⁶⁾
Petzup Laboratories Limited ⁽⁵⁾	PuraPharm Corp.	PuraPharm Health	99.99% ⁽¹¹⁾	HK\$299,999.00 ⁽⁶⁾
Poly Modern Research ⁽¹⁾ ..	PuraPharm Corp.	PuraPharm Health	99.99% ⁽¹²⁾	HK\$1,000.00 ⁽⁷⁾
PuraPharm Corporation USA ⁽¹⁾	PuraPharm Corp.	PuraPharm Health	100%	nil ⁽⁷⁾

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) These companies are principally engaged in the trading of Chinese healthcare products.
- (2) PuraPharm Research is principally engaged in the research and development of our products.
- (3) PuraPharm Marketing Services Limited is inactive.
- (4) PuraPharm HK is principally engaged in the manufacturing and trading of Chinese healthcare products.
- (5) Petzup Laboratories Limited is principally engaged in the trading of pet's healthcare food products.
- (6) The consideration of the transfer was determined with reference to the par value of the shares transferred.
- (7) The consideration of the transfer was determined with reference to the agreed assessment of the value of the shares transferred.
- (8) The remaining 0.01% interest in PuraPharm Research was held by Mr. Chan on trust for PuraPharm Health. Upon completion of such acquisition, PuraPharm Research became a wholly-owned subsidiary of PuraPharm Health. The above trust arrangement was cancelled on 29 January 2015 and on the same day, Mr. Chan transferred his share in PuraPharm Research to PuraPharm Health.
- (9) The remaining 50% interest in PuraPharm International was held by Mr. Chan on trust for PuraPharm Health. Upon completion of such acquisition, PuraPharm International became a wholly owned subsidiary of PuraPharm Health. The above trust arrangement was cancelled on 29 January 2015 and on the same day, Mr. Chan transferred his share in PuraPharm International to PuraPharm Health.
- (10) The remaining 0.01% interest in PuraPharm HK was held by Mr. Chan on trust for PuraPharm Health. Upon completion of such acquisition, PuraPharm HK became a wholly-owned subsidiary of PuraPharm Health. The above trust arrangement was cancelled on 29 January 2015 and on the same day, Mr. Chan transferred his share in PuraPharm HK to PuraPharm Health.
- (11) The remaining 0.01% interest in Petzup Laboratories Limited was held by Mr. Chan on trust for PuraPharm Health. Upon completion of such acquisition, Petzup Laboratories Limited became a wholly-owned subsidiary of PuraPharm Health.
- (12) The remaining 0.01% interest in Poly Modern Research was held by Mr. Chan on trust for PuraPharm Health. Upon completion of such acquisition, Poly Modern Research became a wholly owned subsidiary of PuraPharm Health. The above trust arrangement was cancelled on 29 January 2015 and on the same day, Mr. Chan transferred his share in Poly Modern Research to PuraPharm Health.
- (13) The trust arrangements in notes 8 to 12 above were entered into due to the requirement under the then effective predecessor Companies Ordinance that a limited liability company incorporated in Hong Kong must have at least two shareholders.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Disposals of non-core businesses

As part of the Reorganisation, certain companies within our non-core business were disposed of as these companies were either dormant or were principally engaged in businesses which does not form part of our Group's core business. The following table sets forth the details of disposals of certain companies within the non-core business pursuant to the Reorganisation:

Companies disposed of	Transferor	Transferee	Interest disposed of	Consideration ⁽⁹⁾
Bagi Laboratories				
Limited ⁽¹⁾	PuraPharm Corp.	Gold Sparkle	80%	HK\$80.00
Bagi Research Limited ⁽²⁾ ..	PuraPharm Corp.	Gold Sparkle	80%	HK\$80.00
PuraPharm China				
Investment Limited ⁽¹⁾	PuraPharm Corp.	Gold Sparkle	100%	US\$1.00
Nong's Chinese Medicine				
Clinic (TKS)				
Limited ⁽¹⁾	Nong's Clinic	Gold Sparkle	100%	HK\$1.00
PuraPharm China				
Holdings Limited ⁽¹⁾	Nong's International	Gold Sparkle	100%	HK\$1.00
PuraPharm Marketing				
Services Limited ⁽¹⁾	PuraPharm Health	Gold Sparkle	100%	HK\$100.00
Nong's Chinese Medicine				
Clinic Services				
Limited ⁽¹⁾	Nong's Clinic	Gold Sparkle	50% ⁽³⁾	HK\$1.00
The Nong's Chinese				
Medicine Clinic				
Limited ⁽¹⁾	Nong's Corporation	Gold Sparkle	99.99% ⁽⁴⁾	HK\$9,999.00
Petzup Laboratories				
Limited ⁽⁵⁾	PuraPharm Health	Gold Sparkle	99.99% ⁽⁶⁾	HK\$299,999.00
PuraPharm Information				
Technology Limited ⁽¹⁾ ...	PuraPharm Health	Gold Sparkle	99.99% ⁽⁷⁾⁽⁸⁾	HK\$999.00

Notes:

- (1) Each of these companies were inactive.
- (2) Bagi Research Limited is principally engaged in the research and development on the molecular structure of herbs specifically for application in western medicine.
- (3) The remaining 50% interest in Nong's Chinese Medicine Clinic Services Limited was held by Mr. Chan on trust for Nong's Clinic. The above trust arrangement was cancelled on 1 November 2012 and on the same day, Mr. Chan transferred his share in Nong's Chinese Medicine Clinic Services Limited to Gold Sparkle. Upon completion of such disposal and cancellation of trust, Nong's Chinese Medicine Clinic Services Limited ceased to be a wholly owned subsidiary of Nong's Clinic.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (4) The remaining 0.01% interest in The Nong's Chinese Medicine Clinic Limited was held by Mr. Chan on trust for Nong's Clinic. The above trust arrangement was cancelled on 14 November 2012 and on the same day, Mr. Chan transferred his share in The Nong's Chinese Medicine Clinic Limited to Gold Sparkle. Upon completion of such disposal and cancellation of trust, The Nong's Chinese Medicine Clinic Limited ceased to be a wholly owned subsidiary of Nong's Clinic.
- (5) Petzup Laboratories Limited is principally engaged in the trading of pet's healthcare food products.
- (6) The remaining 0.01% interest in Petzup Laboratories Limited was held by Mr. Chan on trust for PuraPharm Health. The above trust arrangement was cancelled on 24 December 2012 and on the same day, Mr. Chan transferred his share in Petzup Laboratories Limited to Gold Sparkle. Upon completion of such disposal and cancellation of trust, Petzup Laboratories Limited ceased to be a wholly owned subsidiary of PuraPharm Health.
- (7) On 25 May 2012, Nong's Corporation transferred its entire interest in PuraPharm Information Technology Limited to PuraPharm Health for a consideration of HK\$1,000.00, which was determined with reference to the par value of the shares transferred. Upon the completion of such transfer, PuraPharm Information Technology Limited became wholly owned by PuraPharm Health.
- (8) The remaining 0.01% interest in PuraPharm Information Technology Limited was held by Mr. Chan on trust for PuraPharm Health. The above trust arrangement was cancelled on 22 February 2013 and on the same day, Mr. Chan transferred his share in PuraPharm Information Technology Limited to Gold Sparkle. Upon completion of such disposal and cancellation of trust, PuraPharm Information Technology Limited ceased to be a wholly owned subsidiary of PuraPharm Health.
- (9) The consideration of each of the transfers was determined with reference to the par value of the shares transferred.
- (10) The trust arrangements in notes 3, 4, 6 and 8 above were entered into due to the requirement under the then effective predecessor Companies Ordinance that a limited liability company incorporated in Hong Kong must have at least two shareholders.

Incorporation of certain overseas subsidiaries

PuraPharm Canada

PuraPharm Canada was incorporated in Ontario, Canada on 8 March 2012. Upon incorporation, the entire issued share capital was held by PuraPharm Health. PuraPharm Canada is currently inactive.

PuraPharm Macao

PuraPharm Macao was incorporated in the Macau on 3 August 2012 and the authorised issued share capital was MOP\$25,000 divided into one share. Upon incorporation, the entire issued share capital was held by Nong's International. PuraPharm Macao is currently engaged in the business of sales of Chinese medicine in Macao.

PRE-IPO INVESTMENT

During the period from June 2013 to December 2014, Cosy Good Limited, PCL Investment Holding Ltd., Genovate Biotechnology (Cayman) Co., Ltd. and Guijiang Enterprises Limited acquired and/or subscribed for a total of 205,403 shares in PuraPharm Corp.. On the date immediately before the Listing Date, PuraPharm Corp. will repurchase its shares acquired by each of the Pre-IPO Investors (as defined below) and in return, PuraPharm Corp. will transfer our Shares to each of them as consideration on a pro-rata basis. For further details, please refer to the subsection headed “— Repurchase of Shares by PuraPharm Corp.” in this section.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Summary of the principal terms of the Pre-IPO agreements (the “**Pre-IPO Agreements**”) in respect of the investment of each of the Pre-IPO Investors (as defined below) are set out below:

Name of Pre-IPO Investors: Cosy Good Limited (“**Cosy Good**”)
PCL Investment Holding Ltd. (“**PCL Investment**”)
Genovate Biotechnology (Cayman) Co., Ltd. (“**Genovate Bio**”)
Guijiang Enterprises Limited (桂江企業有限公司) (“**Guijiang Enterprises**”)
(collectively known as the “**Pre-IPO Investors**”)

Background of Pre-IPO Investors: Cosy Good is an investment holding company. It is incorporated under the laws of the BVI and is ultimately wholly owned by ENM Holdings Limited, a company which is listed on the Main Board (stock code: 128).

PCL Investment is a special purpose vehicle incorporated under the laws of the BVI solely to invest in our Company using Shariah-compliant financing provided to it by The Islamic Bank of Asia. The Islamic Bank of Asia is a subsidiary of DBS Group Holdings Ltd, a bank listed on The Stock Exchange of Singapore (stock code: D05).

Genovate Bio is an investment holding company. It is incorporated under the laws of the Cayman Islands and is ultimately wholly owned by Genovate Biotechnology Co., Ltd., a pharmaceutical company which is listed on the Taiwan GreTai Securities Market (stock code: 4130: TPEX).

Guijiang Enterprises is an investment holding company. It is a company incorporated under the laws of Hong Kong and is ultimately owned by Guangxi Guijiang Limited* (廣西桂江有限責任公司), a company principally engaged in equity and real estate investment.

To the best knowledge, information and belief of our Directors, other than their respective investments in our Company, each of the Pre-IPO Investors and its respective ultimate beneficial owner are independent of and not connected with our Directors, chief executive or substantial shareholders or any of our subsidiaries or their respective associates.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Date of Pre-IPO agreements:

Cosy Good: (i) 13 June 2013 as supplemented by a supplemental agreement dated 7 August 2013; and (ii) 31 December 2014

PCL Investment: 29 July 2013

Genovate Bio: 29 August 2013

Guijiang Enterprises: 5 September 2013

Number of shares in PuraPharm Corp. acquired and/or subscribed⁽¹⁾:

Cosy Good: (i) in respect of the Pre-IPO Agreement dated 13 June 2013, 43,642 shares acquired from Fullgold Development; (ii) in respect of the supplemental agreement dated 7 August 2013, 1,604 shares acquired from Fullgold Development; and (iii) in respect of the Pre-IPO Agreement dated 31 December 2014, 50,229 shares of which 12,557 shares were acquired from Fullgold Development and the remaining 37,672 shares were through subscription of shares of PuraPharm Corp. by Cosy Good

PCL Investment: 64,180 shares of which 32,090 shares were acquired from Fullgold Development and the remaining 32,090 shares were through subscription of shares of PuraPharm Corp. by PCL Investment

Genovate Bio: 12,836 shares acquired from Fullgold Development

Guijiang Enterprises: 32,912 shares acquired from Fullgold Development

Consideration paid:

Cosy Good: (i) in respect of the Pre-IPO Agreement dated 13 June 2013, US\$3,400,000; (ii) in respect of the supplemental agreement dated 7 August 2013, US\$124,962; and (iii) in respect of the Pre-IPO Agreement dated 31 December 2014, HK\$40,000,000

PCL Investment: US\$5,000,000

Genovate Bio: US\$1,000,000

Guijiang Enterprises: HK\$20,000,000

Basis of determination of consideration:

Based on arm's length negotiation with reference to the agreed assessment of the value of our Group at the time of signing of the Pre-IPO Agreements

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

<i>Payment date of consideration:</i>	<p>Cosy Good: (i) in respect of the Pre-IPO Agreement dated 13 June 2013, 14 June 2013; (ii) in respect of the supplemental agreement dated 7 August 2013, 9 August 2013; and (iii) in respect of the Pre-IPO Agreement dated 31 December 2014, 31 December 2014</p> <p>PCL Investment: 1 August 2013</p> <p>Genovate Bio: 9 September 2013</p> <p>Guijiang Enterprises: 17 September 2013</p>
<i>Investment cost per Share after Capitalisation Issue and discount to mid-point Offer Price range:</i>	<p>Cosy Good: (i) in respect of the Pre-IPO Agreement dated 13 June 2013, approximately HK\$3.37, representing 40.67% discount to the mid-point of the Offer Price range; (ii) in respect of the supplemental agreement dated 7 August 2013, approximately HK\$3.37, representing 40.67% discount to the mid-point of the Offer Price range and (iii) in respect of the Pre-IPO Agreement dated 31 December 2014, approximately HK\$4.45, representing 21.65% discount to the mid-point of the Offer Price range</p> <p>PCL Investment: approximately HK\$3.37, representing 40.67% discount to the mid-point of the Offer Price range</p> <p>Genovate Bio: approximately HK\$3.37, representing 40.67% discount to the mid-point of the Offer Price range</p> <p>Guijiang Enterprises: approximately HK\$3.39, representing 40.32% discount to the mid-point of the Offer Price range</p>
<i>Use of proceeds:</i>	<p>PuraPharm Corp. received approximately HK\$49.4 million from the subscription of its shares by the Pre-IPO Investors. The proceeds shall be used for working capital. As at the Latest Practicable Date, the proceeds had not been fully utilised.</p>
<i>Strategic benefits:</i>	<p>Our Directors are of the view that our Company can benefit from the Pre-IPO Investors' commitment to our Company and their investments demonstrate their confidence in our operation and serve as an endorsement of our performance, strength and prospects.</p>

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Shareholding in our Company immediately following completion of the Capitalisation Issue and the Global Offering (after taking into account the Sale Shares in the Global Offering and assuming the Over-allotment Option is not exercised):

Cosy Good: Approximately 4.56%

PCL Investment: Approximately 1.53%

Genovate Bio: Approximately 1.02%

Guijiang Enterprises: Approximately 2.62%

Lock-up:

Each of the Pre-IPO Investors is entitled to dispose all or part of its Shares (after the repurchase of its own shares by PuraPharm Corp.) in the Global Offering. If the relevant Pre-IPO Investor retains all or part of its Shares, the retained Shares are subject to a lock-up period of six months from the Listing Date if so required by the Sole Sponsor or the relevant stock exchange.

As required and confirmed by the Sole Sponsor, all the retained Shares of the Pre-IPO Investors will be subject to a lock-up period of six months from the Listing Date.

Public float:

The Shares held by each of the Pre-IPO Investors are considered as part of the public float as each of the Pre-IPO Investors (i) is not a connected person of our Company; (ii) the acquisition/subscription of its respective shareholding interest in our Company was not financed directly or indirectly by any connected person of our Company; and (iii) is not accustomed to take instructions from a connected person in relation to the acquisition, disposal, voting or other disposition of securities of our Company registered in its name or otherwise held by it.

Note:

- (1) On the date immediately before the Listing Date, PuraPharm Corp. will repurchase its shares acquired by each of the Pre-IPO Investors and in return, PuraPharm Corp. will transfer its Shares to each of them as consideration on a pro-rata basis. For further details, please refer to the subsection headed “— Repurchase of Shares by PuraPharm Corp.” in this section.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Special rights of Pre-IPO Investors

The Pre-IPO Investors were granted the following rights pursuant to their respective Pre-IPO Agreement:

Veto rights

There are certain matters which would require the prior written consent of Cosy Good and PCL Investment. Such matters include, among others, amending the memorandum and articles of association of PuraPharm Corp. in a manner that would adversely affect their rights, materially changing the nature or scope of the business carried on by PuraPharm Corp. and our Group, selling, transferring or disposing any of the major assets of PuraPharm Corp. and certain of our major subsidiaries.

Observation rights

Cosy Good and PCL Investment have been granted with observation rights to have a representative to attend the meetings of the board of directors of PuraPharm Corp. as a non-voting observer.

Pre-emptive rights

Cosy Good and PCL Investment have been granted with pre-emptive right with respect to any further issuance of shares or securities by PuraPharm Corp. exchangeable into our Shares on a pro rata basis. PuraPharm Corp. will not issue any further shares or securities before the Listing. The pre-emptive right granted to Cosy Good and PCL will be automatically terminated upon Listing.

Redemption rights

Each of the Pre-IPO Investors has been granted with a redemption right to require Fullgold Development and/or PuraPharm Corp. (as the case may be) to redeem all of the shares in PuraPharm Corp. held by them if a listing of our Shares on the Main Board or any other recognised international stock exchange to be determined by the board of directors of PuraPharm Corp. is not completed within 36 months from the closing date set out in the respective Pre-IPO Agreement (the “**Relevant Closing Date**”) for a total consideration calculated in accordance with the following formula:

$$C \times IRR$$

Where:

C = Total consideration paid by the Pre-IPO Investor

$$IRR = (1.25)^d$$

$$d = \frac{\text{Number of days from the Relevant Closing Date to the date on which the respective shares are redeemed by Fullgold Development and/or PuraPharm Corp. (as the case may be)}}{365}$$

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Further, the Listing shall only be proceeded with if (a) the Listing has fulfilled the qualification of a QIPO; or (b) written consent has been obtained from the relevant Pre-IPO Investor that the Listing could be proceeded with. “**QIPO**” is defined as a fully underwritten initial public offering where:

- (a) the relevant Pre-IPO Investor’s shareholding in our Company immediately before the Listing shall not exceed its shareholding when it first acquired and/or subscribed for the shares in PuraPharm Corp. on a fully-diluted basis, except for:
 - (i) Share which may be issued upon the exercise of options granted under the Share Option Scheme; and
 - (ii) mutual agreement between Fullgold Development and the relevant Pre-IPO Investor; and
- (b) valuation of our Company at Listing shall not be less than the pre-agreed amount set out in the respective Pre-IPO Agreement multiplied by R, where:

$$R = 1.25^n$$

and

$$n = \frac{\text{Number of calendar days from the Relevant Closing Date to the Listing Date}}{365}$$

Based on an Offer Price of HK\$5.16 per Share, being the low end of the indicative Offer Price range, the Listing will fulfill the qualification of a QIPO.

Information rights

Cosy Good, PCL Investment and Genovate Bio have been granted the right to obtain unaudited consolidated management accounts of PuraPharm Corp..

Indemnity

Upon the occurrence of certain customary events of default (such as any bankruptcy, liquidation, winding-up or dissolution of PuraPharm Corp. and breach of representations and warranties by Fullgold Development, PuraPharm Corp. and/or Mr. Chan in their respective Pre-IPO Agreements) after the Relevant Closing Date, Fullgold Development, Mr. Chan and our Company shall jointly and severally indemnify Cosy Good and PCL Investment forthwith in cash a total amount calculated according to the following formula:

$$\text{Investor’s Indemnity} = C \times \text{IRR}$$

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Where:

C = Total relevant consideration paid by the relevant Pre-IPO Investor

IRR = $(1.25)^d$

$$d = \frac{\text{Number of days from the Relevant Closing Date to the date the relevant Pre-IPO Investor receives the Investor's Indemnity in full}}{365}$$

Each of the above special rights granted to the Pre-IPO Investors under their respective Pre-IPO Agreement will be automatically terminated upon Listing.

Confirmation from the Sole Sponsor

The Sole Sponsor has confirmed that the investments by the Pre-IPO Investors are in compliance with (i) the “Interim Guidance on Pre-IPO Investments” issued on 13 October 2010 by the Stock Exchange as the consideration for the Pre-IPO investments was all settled more than 28 days before the date of our first submission of the listing application to the Stock Exchange in relation to the Listing, (ii) the Guidance Letter HKEx-GL-43-12 issued in October 2012 and updated in July 2013 by the Stock Exchange and the Guidance Letter HKEx-GL44-12 issued in October 2012 by the Stock Exchange as the special rights granted to each of the Pre-IPO Investors will terminate upon Listing.

INCREASE OF AUTHORISED SHARE CAPITAL AND ALLOTMENT OF SHARES TO PURAPHARM CORP.

On 31 December 2014, our Company increased its authorised share capital to US\$10,000,000.00 through the creation of 9,950,000 Shares. On the same date, 3,870,967 Shares were allotted and issued to PuraPharm Corp. for a consideration of US\$3,870,967.00, which was determined with reference to the par value of our Shares. Upon completion of such allotment, our Company remained wholly owned by PuraPharm Corp..

SUBDIVISION OF SHARES AND INCREASE OF AUTHORISED SHARE CAPITAL

On 12 June 2015, our Company subdivided all its issued and unissued shares with par value of US\$1.00 each into 10 Shares of US\$0.10 each. On the same date, our Company increased its authorised share capital to US\$5,000,000,000.00 through the creation of 49,900,000,000 additional Shares.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

REPURCHASE OF SHARES BY PURAPHARM CORP.

On the date immediately before the Listing Date, PuraPharm Corp. will repurchase all of its shares held by Fullgold Development, Best Revenue Investments Limited, K.M. Chan & Co Limited, Cosy Good, PCL Investment, Genovate Bio and Guijiang Enterprises and in return PuraPharm Corp. will transfer the shares in our Company held by it to each of them as consideration on a pro-rata basis as follows:

<u>Shareholder</u>	<u>Number of shares in our Company</u>
Fullgold Development	17,728,720
Best Revenue Investments Limited	358,431
K.M. Chan & Co. Limited	358,431
Cosy Good	3,920,848
PCL Investment	2,635,664
Genovate Bio	527,133
Guijiang Enterprises	1,351,589

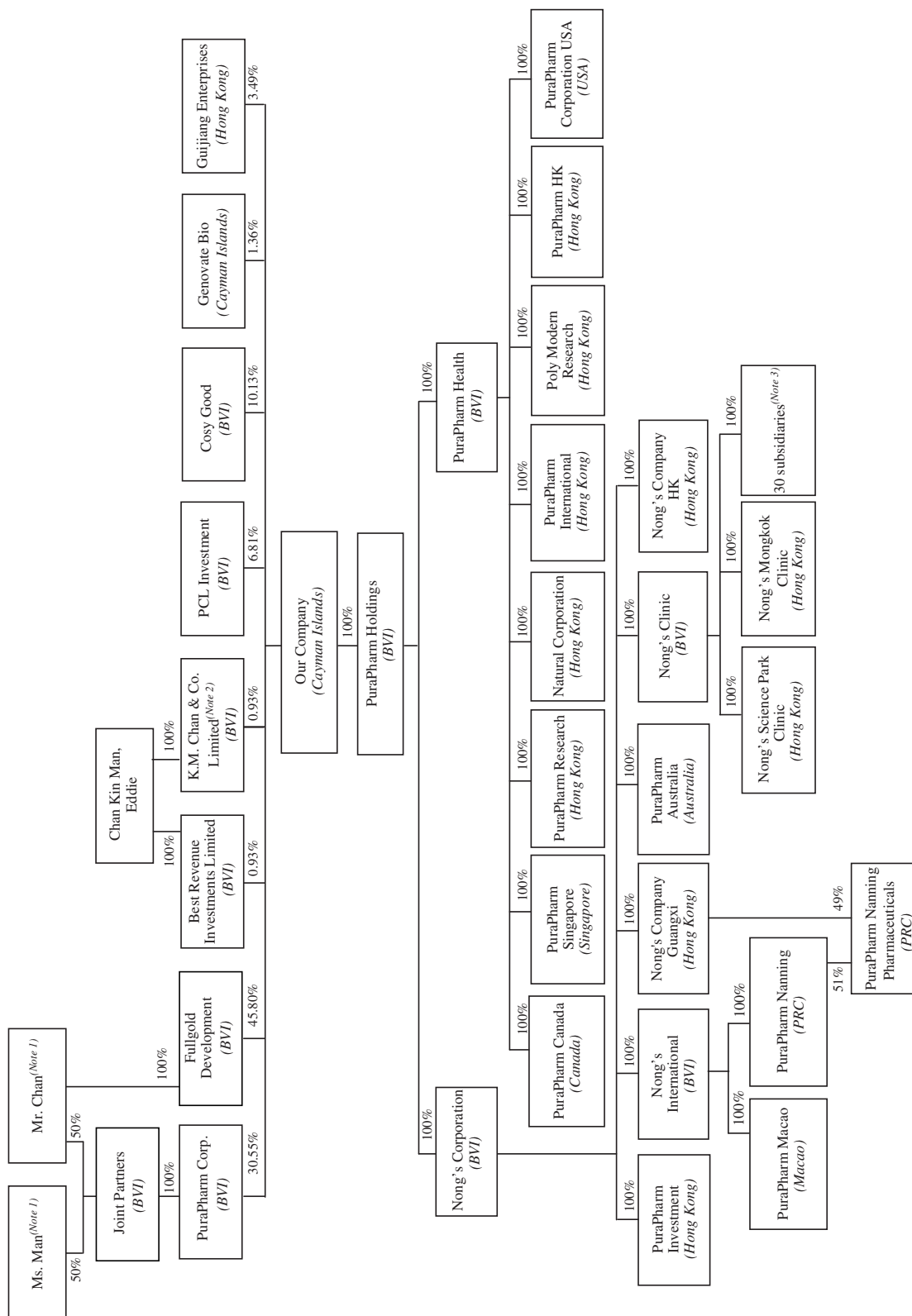
CAPITALISATION ISSUE

Conditional on the share premium account of our Company being credited as a result of the Global Offering, the directors of our Company be authorised to capitalise the amount of US\$13,004,032.00 from such account and applying such sum in paying up in full at par a total of 130,040,320 Shares for allotment and issue to its then shareholders, on a pro rata basis.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE AND SHAREHOLDING STRUCTURE

The following chart sets forth our corporate and shareholding structure immediately after the Reorganisation and the Capitalisation Issue, but before the completion of the Global Offering:



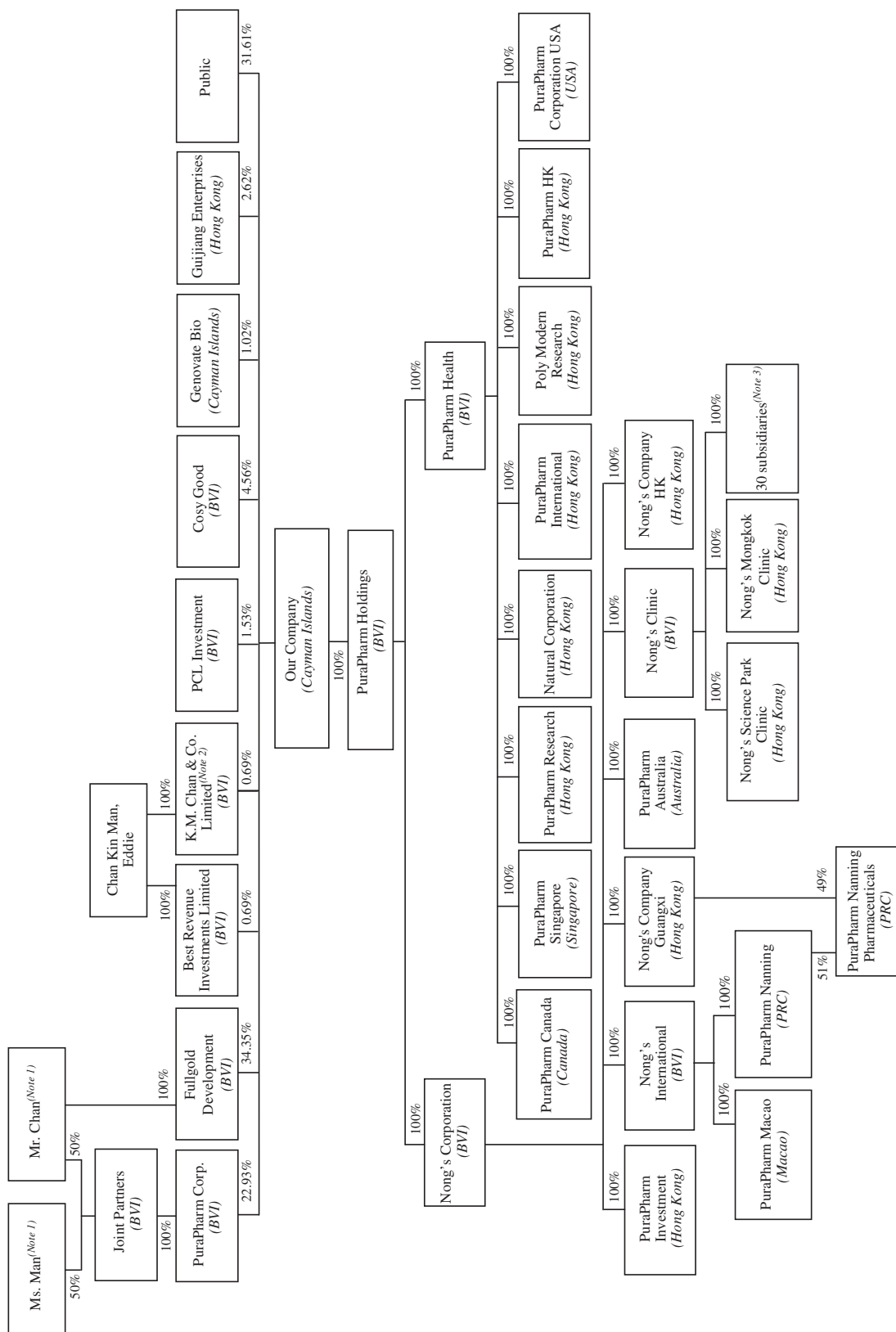
HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Ms. Man is the spouse of Mr. Chan.
- (2) Wellson Nominees Limited holds 1% interest in K.M. Chan & Co. on trust for Chan Kin Man, Eddie.
- (3) The subsidiaries include Nong's Healthcare 1 Limited, Nong's Healthcare 2 Limited, Nong's Healthcare 3 Limited, Nong's Healthcare 4 Limited, Nong's Healthcare 5 Limited, Nong's Healthcare 6 Limited, Nong's Healthcare 7 Limited, Nong's Healthcare 8 Limited, Nong's Healthcare 9 Limited, Nong's Healthcare 10 Limited, Nong's Healthcare 11 Limited, Nong's Healthcare 12 Limited, Nong's Healthcare 13 Limited, Nong's Healthcare 14 Limited, Nong's Healthcare 15 Limited, Nong's Healthcare 16 Limited, Nong's Healthcare 17 Limited, Nong's Healthcare 18 Limited, Nong's Healthcare 19 Limited, Nong's Healthcare 20 Limited, Nong's Healthcare 21 Limited, Nong's Healthcare 22 Limited, Nong's Healthcare 23 Limited, Nong's Healthcare 24 Limited, Nong's Healthcare 25 Limited, Nong's Healthcare 26 Limited, Nong's Healthcare 27 Limited, Nong's Healthcare 28 Limited, Nong's Healthcare 29 Limited and Nong's Healthcare 30 Limited, each of which is incorporated in Hong Kong and wholly owned by Nong's Clinic.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets forth our corporate and shareholding structure immediately after the completion of the Reorganisation, the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised):



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) Ms. Man is the spouse of Mr. Chan.
- (2) Wellson Nominees Limited holds 1% interest in K.M. Chan & Co. on trust for Chan Kin Man, Eddie.
- (3) The subsidiaries include Nong's Healthcare 1 Limited, Nong's Healthcare 2 Limited, Nong's Healthcare 3 Limited, Nong's Healthcare 4 Limited, Nong's Healthcare 5 Limited, Nong's Healthcare 6 Limited, Nong's Healthcare 7 Limited, Nong's Healthcare 8 Limited, Nong's Healthcare 9 Limited, Nong's Healthcare 10 Limited, Nong's Healthcare 11 Limited, Nong's Healthcare 12 Limited, Nong's Healthcare 13 Limited, Nong's Healthcare 14 Limited, Nong's Healthcare 15 Limited, Nong's Healthcare 16 Limited, Nong's Healthcare 17 Limited, Nong's Healthcare 18 Limited, Nong's Healthcare 19 Limited, Nong's Healthcare 20 Limited, Nong's Healthcare 21 Limited, Nong's Healthcare 22 Limited, Nong's Healthcare 23 Limited, Nong's Healthcare 24 Limited, Nong's Healthcare 25 Limited, Nong's Healthcare 26 Limited, Nong's Healthcare 27 Limited, Nong's Healthcare 28 Limited, Nong's Healthcare 29 Limited and Nong's Healthcare 30 Limited, each of which is incorporated in Hong Kong and wholly owned by Nong's Clinic.

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OVERVIEW

We are a leading Hong Kong-based Chinese medicine company engaged in the research and development, production, marketing and sale of CCMG products which we market under our brand “Nong’s® (農本方)®”. We are the largest supplier of CCMG products in Hong Kong with a market share of 70% in terms of prescription revenue in 2014, according to the Euromonitor Report. We also sell a broad range of general Chinese healthcare products, examples being PuraGold® (金靈芝)® and Oncozac® (安固生)®, which are essentially Chinese herbal supplements, on an OTC basis, targeted at end-consumers.

We are currently the sole supplier of CCMG products to the Hong Kong Hospital Authority⁽¹⁾, who has been our CCMG product customer since 2004. Our leading market position is further supported by the following international awards and recognitions:

- We are one of only five CCMG product manufacturers and the only non-PRC company licensed by the CFDA to manufacture and sell CCMG products in China;
- We are the only Chinese medicine manufacturer with CCMG products verified and recognised by the USP; and
- We are the only CFDA-licensed CCMG product manufacturer with a testing laboratory which is certified by CNAS in accordance with ISO 17025 standards and manufacturing facilities which are GMP-certified by the TGA.

Conventionally, the preparation and dispensation of TCM is time-consuming and inconvenient and requires the storage of raw herbs by the Chinese medicine practitioner and the boiling or decocting of raw herbs into a liquid form for patient consumption. We have modernised the manner in which TCM is manufactured, prepared and consumed by offering a broad range of CCMG products for easy consumption. Our CCMG products are traditional Chinese medicinal herbs extracted into granules by using modernised extraction and concentration technologies to replicate the traditional method of preparing medicinal decoction.

Our “Nong’s® (農本方)®” range of CCMG products is complimented by our proprietary, integrated and comprehensive diagnostic clinic management and drug dispensing system, CMCMS, offering a total solution in Chinese medicine products and services, which we sell to qualified Chinese medicine practitioners in hospitals, clinics, universities, research institutes and other medical organisations for prescription purposes. Our CMCMS automates the entire service process of a TCM clinic from patient registration, organisation of patient medical records, medical diagnosis, prescription processing, inventory management to CCMG product dispensation. Following

⁽¹⁾ We are approved by the Hong Kong Hospital Authority to sell CCMG products to its network of public hospitals and Chinese medicine clinics. We currently sell CCMG products to 18 public hospitals and Chinese medicine clinics under the administration of the Hong Kong Hospital Authority.

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consultation with a patient, a TCM practitioner using our CMCMS is able to prescribe accurately ready-mixed dosages of different CCMG products in a single sealed packet for easy, safe and immediate consumption.

Our Group was founded by our Chairman and chief executive officer, Mr. Chan, in 1998 and we currently sell over 677 CCMG products under the Nong's® (農本方)® brand, consisting of over 533 single formulae products and 144 combo formulae products, which are widely recognised and trusted in Hong Kong for its premium product quality, reliability and safety.

Leveraging on our success and strong brand recognition in Hong Kong, and to capitalise on the significant growth opportunities in the CCMG product market in China, we commenced the sale of our Nong's® (農本方)® CCMG products in China in 2006. We sell directly to our customers in China as well as to third party distributors who then resell our products to approved hospitals and medical institutions for clinical use. As at 31 December 2014, our extensive sales and distribution network covered over 300 hospitals and medical institutions in over 20 provinces, autonomous regions and municipalities in China. In December 2014, we entered into a distribution framework agreement with Sinopharm International, a Hong Kong subsidiary of Sinopharm, which is one of the largest distributors of pharmaceutical and healthcare products in China, whereby Sinopharm International agreed to distribute our CCMG products in China. Our strategic relationship with Sinopharm will allow us to leverage on its strong and nationwide pharmaceutical distribution network, well-established brand name and full range of logistics services to extend our product distribution reach in China.

We are a pioneer in the modernisation of Chinese medicine and our strong research and development capability has been critical to the sustainable development of our business and future expansion. We are the only CFDA-licensed CCMG product manufacturer who has received USP verification of its CCMG products according to the U.S. Pharmacopeial Convention. We also currently collaborate with the USP in the standardisation of CCMG products. We are also committed to the establishment of quality industry standards for CCMG products through our co-operation with local and national governments, leading international universities, the TCM industry associations and other CCMG product manufacturers licensed by the CFDA.

We collaborate with various leading universities worldwide to focus on the standardisation of CCMG products. We have been selected by The Chinese University of Hong Kong to collaborate with them on a series of projects targeted at the material characterisation of over 500 raw Chinese medicinal extracts to enhance our production and extraction technologies. In 2002, in recognition of our research and development expertise, we were selected by the SATCM to undertake the CCMG combination formulation research project to review and advise on the use of CCMG combo formulae products in China. Currently, we are the only CFDA-licensed CCMG product manufacturer qualified to issue safety reports recognised by over 70 countries around the world through our in-house CNAS ISO 17025 laboratory, according to the CNAS.

We market and distribute our products through both direct sales channels and third party distributors to hospitals, medical institutions, TCM clinics, specialised pharmaceutical and general retail chains and private TCM practitioners, who in turn prescribe our CCMG products to patients.

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We have also established our own Chinese medicine clinics in Hong Kong under the Nong's® (農本方)® brand. As at the Latest Practicable Date, we had established 13 Nong's® (農本方)® Chinese medicine clinics mainly within shopping malls across Hong Kong. The Nong's® (農本方)® Chinese medicine clinics are operated by registered TCM practitioners who use our CMCMS to prescribe our CCMG products to patients.

Our solid revenue growth during the Track Record Period demonstrates our ability to capitalise on our leading market position in Hong Kong and places us in a strong position to take advantage of the significant business opportunities in China arising from the fast growing CCMG products and Chinese healthcare product markets. Our annual revenue grew from HK\$287.8 million in 2012 to HK\$342.3 million in 2013 and further to HK\$366.4 million in 2014, representing a CAGR of 12.8% during this period.

OUR COMPETITIVE STRENGTHS

We are the market leader in the CCMG product market in Hong Kong where our products are widely recognised for their premium product quality, reliability and safety, which gives us a competitive advantage to significantly increase our market share in China

We are the market leader in the research and development, manufacture and sale of a wide range of CCMG products under our Nong's® (農本方)® brand in Hong Kong. According to the Euromonitor Report, we had the largest market share, 70%, in terms of prescription revenue for the Hong Kong CCMG product market in 2014. Over the years, our customers in Hong Kong have built up strong confidence and trust in the quality, reliability and safety of our CCMG products which command premium prices as compared to similar products offered by other CCMG product manufacturers. Being a CCMG product supplier to the Hong Kong Hospital Authority since 2004, we have established strong, long term relationships within the Hong Kong Hospital Authority network covering all hospitals with Chinese medicine departments as well as Chinese medical clinics in the Hong Kong public sector. Our CMCMS was also the first computerised TCM dispensary system adopted by the Hong Kong Hospital Authority.

Leveraging on our success, substantial experience and strong brand recognition in Hong Kong, we are well-positioned to further grow our business in China. The China CCMG product market has significant growth opportunities and is expected to grow from RMB7.8 billion in 2014 to RMB22.0 billion in terms of prescription value by 2019, according to the Euromonitor Report. Being one of the only five CCMG product manufacturers licensed by the CFDA to manufacture and sell CCMG products to approved hospitals and medical institutions for clinical use in China, we expect to benefit from such market opportunities. We also offer the most comprehensive range of CCMG products among the five CFDA-licensed CCMG product manufacturers, according to the Euromonitor Report. As a Hong Kong-based company with substantial operational experience in CCMG products and strong brand recognition for product quality and safety in Hong Kong, and based on our broader range of product offerings and increasing consumer preference in China for overseas brands, particularly due to recent negative publicity on food and drug safety issues in China, we believe we have an edge over our China-based competitors.

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We place strong emphasis on product positioning, differentiated marketing strategies, as well as comprehensive training for our distributors and TCM practitioners, to continuously strengthen our brand awareness among our customers in China. We also provide promotional and educational materials which are specifically tailored to our target customers with regard to the usage and benefits of our products.

Due to the above reasons, we believe we will be able to consolidate our leading market position in Hong Kong and successfully expand our market share in China.

We offer an extensive range of modernised CCMG products and a proprietary, patented and automated clinic and hospital management and dispensing system as a total solution for our customers

We offer over 677 CCMG products, comprising over 533 single formulae products and over 144 combo formulae products, which is the most comprehensive product portfolio among the five major CCMG product manufacturers licensed by the CFDA, according to the Euromonitor Report. We also have the largest number of registered CCMG products among all CCMG product manufacturers in Hong Kong, and we are the only CFDA-licensed CCMG product manufacturer which manufactures and sells combo formulae products in Hong Kong, according to the Chinese Medicine Council of Hong Kong. As at 31 December 2014, over 300 of our CCMG products were registered in Hong Kong. We believe that the high costs and long lead time in the CCMG product registration process in Hong Kong provide a high market entry barrier in our home market, which will also allow us to better protect our market leadership position.

We are committed to the development of a modernised, comprehensive solution for TCM products ranging from pioneering research and development to easy product dispensation and convenient and safe consumption by customers as part of our goal to modernise and internationalise the use of Chinese medicine. Based on our research efforts since 1998, we have developed our proprietary CMCMS with patented technology which offers a total solution integrating Chinese medicine products and related clinical management services handling the entire service process from patient registration, organisation of patient medical records, medical diagnosis and treatment recommendations, prescription processing, inventory management to CCMG product dispensation. Our CMCMS was the first computerised Chinese medicine dispensary system adopted by the Hong Kong Hospital Authority, and we were one of the first CCMG product manufacturers to provide such complete solution system to the TCM industry in Hong Kong.

The provision of a comprehensive solution for TCM practitioners and related customers services is one of our key strategies to cultivate and maintain a loyal customer base. Over the past years, we have endeavoured to tailor our product offerings and services to meet the various needs of hospitals, Chinese medicine clinics, medical institutions and private Chinese medicine practitioners in the PRC and Hong Kong, which in turn has helped us expand our user base while also maintaining our existing customers. We have also devoted substantial resources to customer interactions so that we are able to better understand the specific requirements of our customers for Chinese medicine products and related services, educate them on the active ingredients and medical benefits of our products, and provide personalised healthcare solutions. From time to time, we invite customers to visit our technologically advanced manufacturing facilities to foster a thorough understanding of our

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manufacturing process and cultivate a positive perception of our corporate culture. We also offer extensive training to our distributors and employees so that they are able to provide professional service to our customers. We believe all these efforts have enabled us to provide comprehensive solutions of Chinese medicine products and related services to our customers, which has reinforced customer loyalty.

We believe that our broad range of product offering is a reflection of our extensive product knowledge and operational expertise in TCM manufacturing. Our focus on industry development trends and our understanding of the needs of TCM clinics and practitioners, also enable us to identify and capture market opportunities by successfully launching new Chinese healthcare products ahead of our competitors. We have achieved strong market recognition with respect to some of our top selling products in the respective general healthcare maintenance and functional market segments in Hong Kong and China. For example, we jointly developed PuraGold® (金靈芝)® and Oncozac® (安固生)® with the Hong Kong Baptist University and The Chinese University of Hong Kong, respectively. We successfully commercialised these Chinese healthcare products, which are increasingly popular within our target customer segments.

Our modernised manufacturing facilities, coupled with our strong capabilities in medical product safety testing and stringent quality control during the manufacturing process, have enabled us to ensure premium product quality and safety

Our modern manufacturing and research facilities located in Nanning, Guangxi Zhuang Autonomous Region were completed in 2004. We are one of the first CCMG product manufacturers in Hong Kong and China to adopt advanced technologies and testing techniques in modernised manufacturing facilities to ensure that our manufacturing process is conducted in strict compliance with the internationally recognised manufacturing and quality control standards. With respect to our manufacturing process, in addition to the GMP accreditation we obtained from the CFDA, we have also obtained GMP certifications from the TGA and the USP, respectively. The TGA standards regulate all aspects of the manufacturing process from control of raw materials and design of manufacturing facilities to production procedures and quality inspection of the finished products. Among the five CFDA-licensed CCMG product manufacturers in the PRC, we are the only CCMG product manufacturer whose products are verified and recognised by the USP. The USP standards are adopted in more than 140 countries in the world and are also widely recognised as one of the most stringent set of quality control standards for the assessment of the identity, strength, quality and purity of medicines. We believe our certifications under these international standards are testaments to our advanced production capacity and outstanding product quality.

We focus on the safety and reliability of our products and we have strong capabilities in quality testing. We are the only one among the five CFDA-licensed CCMG product manufacturers whose testing laboratory is certified by the CNAS in accordance with the ISO 17025 standards, according to the CNAS. As a result of our CNAS accreditation, our laboratory test reports are accepted in over 70 countries across the world. We believe we have significant competitive advantages over our competitors because certain government authorities place emphasis on CCMG products certified by an ISO-accredited laboratory. In particular, the Hong Kong Hospital Authority specifically requires combo formulae products to be certified by an ISO-accredited laboratory. Our testing laboratory is also equipped with advanced testing and analytical equipment, such as thin layer chromatography

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(TLC), high performance liquid chromatography (HPLC), gas chromatography (GC), ultra performance liquid chromatography (UPLC) and inductive coupled plasma mass spectrometry (ICPMS), which help us ensure the authenticity, quality, safety and reliability of our products.

We have implemented stringent quality control systems effectively in every aspect of our manufacturing process, from procurement, production, inspection, verification to shipment of our finished products. Before we release each batch of finished products for delivery, we conduct a series of tests in our ISO-certified laboratory to detect the presence of heavy metals, toxic elements, pesticide residues, and monitor microbial limits in these products, thereby guaranteeing the reliability and safety of our products.

We are a pioneering research and development company dedicated to the modernisation and internationalisation of Chinese medicine and our proven track record in the development of new TCM products, in particular CCMG combo formulae products, differentiates us from our competitors

As a research-focused company, we have strong research and development capability which is critical to the sustainable development of our business and future expansion. We collaborate with world-class research institutes across the health landscapes including academic scientists, NGOs, governments, other biopharmaceutical companies and clinicians. We also have a strong scientific advisory committee, comprising world-renowned scientists to advise us on the prevailing research trends and the most up-to-date technologies for our product development. Our research and development activities are primarily focused on the following two areas:

- *Standardisation of CCMG products.* We are fully committed to the establishment of quality standards for CCMG products through our cooperation with the CFDA, the Committee for the Chinese Pharmacopoeia (國家藥典委員會) and major universities in Hong Kong, the PRC and overseas countries. We are the only CFDA-licensed CCMG product manufacturer who has received USP verification of its CCMG products according to the U.S. Pharmacopeial Convention. We also currently collaborate with the USP in the standardisation of CCMG products. In addition, we are presently collaborating with the University of Graz in Austria to compile quality standards for CCMG products, which are expected to be applied in pharmacy stores in Europe.
- *In-licensing of potential drug candidates from other research institutes.* We are devoted to the study of the correlation between Chinese medicines (including raw Chinese herbs, traditional Chinese herbal medicines (中藥飲片), Chinese medicinal decoctions and CCMG single and combo formulae products) and their respective intended treatments. We work with external research institutes to in-license potential drug candidates to expand or to enhance our product portfolio without the risks and costs involved in the substantial research and development programme. We focus our resources on the later stage of product development and commercialisation once the potential of an active ingredient has been identified. Examples are our development of Oncozac® (安固生)®, where the basic science research was licensed from The Chinese University of Hong Kong, and we undertook the formulation and production of the final end-product. We also categorise and select drug candidates which could potentially have curative effects on intended treatments, and our

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in-house scientists will further screen the potential drug candidates for their efficacy before submitting to our scientific advisory committee for their consideration and advice. Based on our accumulated knowledge in Chinese medicines and our research capability, we are able to evaluate promising drug candidates provided to us by external research institutes without investing in costly research and development infrastructure. We are using such model particularly in the development of new Chinese medicine products relating to the treatment of gastrointestinal, cardiovascular and immune diseases.

Building on our strong research and development capability, we have developed a strong pipeline of Chinese medicine for future development. For example, with the collaboration with the Hong Kong Baptist University and The Chinese University of Hong Kong, we have obtained clinical trial approval from the CFDA for our Ren Shu Chang Le Granules (仁術腸樂顆粒) for the treatment of irritable bowel syndrome (治療腸易激綜合症) and our Puerarin Phospholipids Complex Capsules (葛根素磷脂複合物膠囊) for the treatment of cardiovascular disorders in collaboration with the Hong Kong Polytechnic University. Clinical trials for these two drug candidates are expected to commence in 2015.

In particular, we lead our competition in the research, development and manufacture of CCMG combo formulae products which are granules extracted from the decoction of a combination of different raw Chinese herbs in accordance with the formulae set forth in the Chinese Pharmacopoeia (《中國藥典》) and other relevant authoritative literature of Chinese medicines. As a form of early recognition of our expertise in this product category, the SATCM in 2002 granted us the CCMG combo formulae research project to advise on the use of CCMG combo formulae products in China. In 2003, we were also designated by the Ministry of Science and Technology of the PRC to conduct quality specification and clinical efficacy on CCMG combo formulae products as part of China's Tenth National Five-Year Plan. We believe we have the strongest capability in the research and development of CCMG combo formulae products and operate the most advanced production technologies among the five CFDA-licensed CCMG product manufacturers in China. As a result, we believe we are well-positioned to capitalise on the first mover advantage in the development and sale of CCMG combo formulae products in the PRC market when the opportunity arises.

We have a highly experienced management team with a track record of delivering new and innovative products, strong growth and profitability

Our management team possesses extensive operational expertise and industry knowledge, enabling us to understand the needs of our customers and to consistently and successfully deliver quality products and services. Mr. Chan, our founder, chief executive officer and one of our Controlling Shareholders, has more than 23 years of experience in the TCM industry and the other members of our senior management team have an average of 15 years' experience in the TCM industry in Hong Kong and China. In particular, Mr. Chan is a leading figure in the local Chinese medicine industry and plays an active role in advising various government committees, academic and industry organisations related to Chinese medicine. Our team acts with a keen sense of responsibility for the success of our customers, employees and shareholders. Our management team's proven track record and ability to deliver new products, strong and rapid growth and their extensive experience in the TCM industry are of vital importance to our business.

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OUR BUSINESS STRATEGIES

We plan to continue to strengthen our market leadership position in the CCMG product market in Hong Kong and leverage on our competitive advantages in product quality and safety, product and service offering, research and development capability and strong brand recognition, to significantly expand our existing presence in the PRC. To achieve our objective, we plan to adopt the following strategies:

Deepen market penetration, expand into new sales channels and drive market demand for our CCMG products in Hong Kong

Our CCMG products will continue to be the key driver of our future growth and success. We believe the Hong Kong CCMG product market will continue to grow rapidly. The Hong Kong CCMG product market prescription value is expected to increase from HK\$494.4 million in 2015 to HK\$826.6 million in 2019, representing an estimated CAGR of 13.7% during this period, according to the Euromonitor Report. Leveraging on our market leader position in Hong Kong and our well-known brand Nong's® (農本方)®, we intend to deepen market penetration to increase revenue, and expand into new sales channels to capture growing market demand in order to further increase our CCMG product market share. We have recently developed new sales models in Hong Kong and we plan to expand into the following new sales channels and drive increased market demand for our CCMG products:

- *Nong's® (農本方)® Chinese medicine clinics.* We have recently developed a new Chinese medicine clinic business model, in which we establish Chinese medicine clinics by procuring premises within shopping malls and partnering with registered private Chinese medicine practitioners to operate these Chinese medicine clinics, on our behalf, under our “Nong's® (農本方)®” brand. We provide our CCMG products and CMCMS to these clinics, while the Chinese medicine practitioners are responsible for the clinic's daily operation of these clinics and for providing diagnostic services and prescribing our CCMG products to patients. Our team managing these clinics currently consists of nine staff members who have the required educational background, and most of whom have over six years of experience in the Chinese medicine industry. One such team member is a registered Chinese medicine practitioner in Hong Kong with ten years of clinical experience. The average set-up cost for a new Chinese medicine clinic is approximately HK\$550,000. The average breakeven period is approximately three months when a new Chinese medicine clinic starts to generate net profit, and the average investment payback period is approximately 28 months, when the accumulated profit from such clinic will be sufficient to cover the relevant initial capital investment. As at the Latest Practicable Date, we operated 13 Nong's® (農本方)® Chinese medicine clinics across Hong Kong. We intend to continue to replicate this Chinese medicine clinic business model in Hong Kong and further increase the total number of such clinics in Hong Kong to 30 by the end of 2015. Based on our experience and the availability of registered Chinese medicine practitioners with suitable qualifications and clinical experience in Hong Kong, we do not expect any difficulty in procuring a sufficient number of Chinese medicine practitioners to operate such clinics according to our expansion plan.

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- *Chinese medicine departments at pharmacy chain stores.* We have entered into a cooperation arrangement with Watsons pharmacy chain stores in Hong Kong under which Watsons provides space within its pharmacy stores to be used as Chinese medicine departments, and their in-store Chinese medicine practitioners prescribe our CCMG products to patients. As at 31 December 2014, Watsons had established eight of such Chinese medicine departments within its 226 pharmacy chain stores in Hong Kong. We plan to further collaborate with Watsons to set up additional Chinese medicine departments within its chain of pharmacy stores.
- *Mobile clinics.* We also sell our CCMG products to mobile clinics operated by our non-profit organisation customers. As at 31 December 2014, these non-profit organisations operated 50 mobile clinics. We plan to further collaborate with such non-profit organisations in their efforts to further increase the total number of mobile clinics, which will enable us to supply more CCMG products to these customers.
- *Integrative medical centre and the new Chinese medicine hospital.* The Chinese University of Hong Kong has recently established an integrative medical centre at the Prince of Wales public hospital in Hong Kong to provide a clinical platform for its partners on herbal medical development and complementary specialist service. We have signed an agreement with The Chinese University of Hong Kong and will serve as the exclusive CCMG product supplier to the newly-established integrative medical centre for a period of two years commencing from February 2014. We also expect that more of such centres will be established at other public hospitals. In addition, the Hong Kong Hospital Authority plans to provide western and Chinese medicines and related services in three public hospitals to patients who are inflicted with cancer, stroke or other serious ailments. The Hong Kong government also plans to establish a new Chinese medicine hospital in Tseung Kwan O, Hong Kong in the near future.
- *Nong's® (農本方)® affiliated clinic programme.* We plan to increase our sales to private Chinese medicine clinics throughout Hong Kong. We plan to invite private Chinese medicine practitioners to join our Nong's® (農本方)® affiliated clinic programme, under which the Chinese medicine practitioners, while continuing with their consultation work and use of our CCMG products, will display our “Nong's® (農本方)®” signboard, adopt the key features of our own Nong's® (農本方)® Chinese medicine clinics, and participate in our various publicity programmes. The Nong's® (農本方)® affiliate programme will allow Chinese medicine practitioners to leverage on the Nong's® (農本方)® brand awareness to enhance their quality image, and they will be entitled to favourable terms when purchasing Nong's® (農本方)® CCMG products and other affiliate benefits.

Due to the initiatives described above, we expect that customer demand for our CCMG products will further increase in Hong Kong. We plan to work with DKSH to further improve the efficiency of distribution of our CCMG products in Hong Kong to manage the increasing product demand.

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Leverage on our substantial experience, accumulated know-how and strong brand recognition in Hong Kong to expand our business and distribution network rapidly in the CCMG product market in China

The CCMG product market in China has significant growth potential. The retail sales value of the traditional Chinese herbal medicine market in the PRC reached RMB242.7 billion in 2015 and is expected to further grow to RMB488.9 billion in 2019, representing an estimated CAGR of 19.1% from 2015 to 2019, according to the Euromonitor Report. As more hospitals, Chinese medicine clinics, private Chinese medicine practitioners and patients have increasingly realised the advantages of CCMG products over traditionally-prepared Chinese medicinal decoction, we expect that CCMG products will replace traditional Chinese herbal medicines at an accelerating pace and that market demand for CCMG products in the PRC will increase significantly.

We plan to leverage on our accumulated industry knowledge and operational expertise acquired in Hong Kong to expand our business operations in China. Based on our extensive experience in the PRC, we have developed multiple sales models for the sale and distribution of our products, accumulated extensive knowledge of diverse business environments and cultures, and cultivated strong relationships with relevant government authorities, hospitals and medical institutions in the PRC. We intend to further establish significant competitive advantages and to identify and capture high growth business opportunities in the PRC TCM industry.

We believe we will be able to replicate certain aspects of our successful business model in Hong Kong to our PRC business, taking into account the differences in cultures, business practices, regulatory and market environments. For example, we have maintained a successful business relationship with DKSH, who has effectively managed payment collection and delivery of our CCMG products to customers in Hong Kong. We believe a similar approach will also be effective in the PRC and in December 2014, we entered into a distribution framework agreement with Sinopharm International, a Hong Kong subsidiary of Sinopharm, one of the largest distributors of pharmaceutical and healthcare products in China. We believe that through this strategic relationship with Sinopharm, we will be able to utilise its strong distribution networks and resources to expand geographical reach into our new target cities, while we focus more of our resources on brand-building and product development.

Leveraging on the success of our Nong's® (農本方)® Chinese medicine clinic business model in Hong Kong, we are in the process of establishing our Nong's® (農本方)® Chinese medicine clinics in China. We plan to work with our local partners in China to apply for the relevant local licenses and permits to establish our Nong's® (農本方)® Chinese medicine clinics in selected regions in China and to hire qualified Chinese medicine practitioners to operate these clinics on our behalf.

Broaden our range of Chinese healthcare products and strengthen our online sales platform to capture a broader customer base

Our Chinese healthcare products have historically commanded a higher profit margin compared to our CCMG products, mainly due to strong and rapid market growth arising from the increasing public awareness on good health and well-being, as well as increasing consumer demand for quality products for general health maintenance. By leveraging on our in-depth understanding of Chinese

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medicines and our focus on market trends and the needs of TCM practitioners and consumer preferences, we believe we are able to identify and capture high growth business opportunities in the Chinese healthcare product markets in the PRC and Hong Kong by launching successful and high quality Chinese healthcare products. For example, our PuraGold® (金靈芝)® is recognized as a leading brand in the Lingzhi (靈芝) product category in the premium healthcare maintenance product market segment, while our Oncozac® (安固生)® has become a complementary medicine used by certain consumers who have serious illnesses. Both products have successfully established their quality image and have achieved significant popularity in their respective healthcare product segments. We will continue to develop and commercialise new Chinese healthcare products with high growth potential so as to enhance our profitability.

We intend to strengthen our online sales platform to capture a broader customer base. We currently sell our Chinese healthcare products directly to end consumers through our online platform at <http://www.purapharm.com>. We believe there are significant business opportunities through our online sales channel. With the penetration of the internet on a global scale, we endeavour to serve a much broader customer base rather than customers within specific geographical areas. With the primary objective to cater to individual consumer needs by engaging directly with consumers, and to increase online consumer satisfaction and enhance their purchasing experiences, we intend to improve the appearance and functionality of our online sales platform, such as providing product selection advice and general healthcare solutions according to consumer feedback. We believe we will be able to significantly increase our direct engagement with consumers as well as their loyalty through our enhanced online sales platform. In addition, we intend to conduct more marketing and promotional activities on prominent portals, healthcare websites and other mainstream websites in order to promote our existing online sales platform and reach a greater number of consumers who mainly rely on the internet to access information.

Establish an offline to online (O to O) business model

We plan to open concept shops in Hong Kong and China. At our concept shops, we intend to educate consumers about the functional benefits and the ingredients of our Chinese healthcare products. We provide personalised healthcare solutions and customised product selection advice according to the health conditions of end-consumers and their specific needs. We will also be able to strengthen our distinctive brand images through providing end-consumers with medical experts' advice and personalised shopping experience at our concept shops. Following a visit to our concept shops, which will provide opportunities for professional advice on general healthcare issues and Chinese healthcare product information, a customer will be able to place orders on our online sales platform. Our concept shops will serve as a reference point for our online customers and provide important complementary support to the development of our integrated online sales platform.

Commercialise our pipeline products, diversify our product offerings and develop new product formulations

We will continue to develop and commercialise new products with high growth potential to enhance our profitability. Our clinical trial on our Ren Shu Chang Le Granules (仁術腸樂顆粒) for the treatment of irritable bowel syndrome (治療腸易激綜合症) is expected to commence in the second half of 2015. Our other drug candidate, Puerarin Phospholipids Complex Capsules (葛根素磷脂複合

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物膠囊), for the treatment of cardiovascular diseases is an oral formulation of an existing injectable on the market. The new formulation is designed to enhance a patient's compliance and reduce the side effects of existing injectables on the market. We intend to launch these new products upon completion of the relevant clinical trials, which we expect to complete by 2020. Given that the diseases intended to be treated are relatively common in the PRC and Hong Kong, we expect significant market demand and sales growth potential for these two new Chinese medicine products.

We also intend to launch new products from time to time that are complementary to, and can generate significant up-selling and cross-selling potential for, our existing product portfolio as well as consistent with our brand images and product positioning.

In collaboration with the School of Pharmacy of The Chinese University of Hong Kong, we plan to establish a Chinese medicine research and formulation development centre in Hong Kong to develop new formulations for our existing Chinese medicine products (such as transdermal patches, as well as sustained release tablets and capsules). In addition, we plan to build a database with the accumulated information for the physico-mechanical properties of over 500 Chinese herbal extracts. We intend to use such information to enhance our production and extraction technologies. We believe the commercialisation of our pipeline products, expansion of our product portfolio and further development of new product formulations will enable us to fully maximise our production capacity and increase return on investment in our business.

OUR PRODUCTS

We research, develop, manufacture and sell primarily two lines of products: (i) CCMG products under our Nong's® (農本方)® brand; and (ii) Chinese healthcare products primarily under our brands of PuraGold® (金靈芝)®, Oncozac® (安固生)®, Nong's® Formula (農本方®沖劑), Haveron® (烏髮濃)® and others. The following table sets forth a breakdown of revenue from the sales of our CCMG products and Chinese healthcare products by product segment for the periods indicated:

	Year ended 31 December					
	2012		2013		2014	
	Revenue	% of revenue from product sales	Revenue	% of revenue from product sales	Revenue	% of revenue from product sales
	<i>HK\$'000</i>		<i>HK\$'000</i>		<i>HK\$'000</i>	
CCMG product sales	243,800	84.9	307,072	89.9	324,825	89.0
Chinese healthcare product sales	43,359	15.1	34,565	10.1	40,069	11.0
Total.....	287,159	100.0	341,637	100.0	364,894	100.0

CCMG Products and CMCMS

Nong's® (農本方)® CCMG Products

Overview

Our CCMG products under our brand Nong's® (農本方)® are essentially a modernised form of traditional Chinese herbal medicines (中藥飲片) and patients use such products through prescriptions by qualified Chinese medicine practitioners. They are in a dosage form derived from Chinese herbs with accountable standards. Our CCMG products comprise a wide range of traditional Chinese medicinal herbs extracted by using modernised extraction and concentration technologies that replicate the traditional method of preparing medicinal decoction.

Our CCMG products consist of single formulae products (單方) and combo formulae (複方) products. CCMG single formulae products are granules made from one ingredient only. CCMG combo formulae products are granules made from a combination of different ingredients in accordance with formulae set forth in the Chinese Pharmacopoeia (《中國藥典》) and other relevant authoritative literature of Chinese medicine. As at 31 December 2014, we offered a total of 677 CCMG products, consisting of 533 single formulae products and 144 combo formulae products. The selling prices of our CCMG product ranged from HK\$48 to HK\$4,502, which remained relatively stable, during the Track Record Period. We commenced the sale of our CCMG products in Hong Kong in 1999 and in the PRC in 2006, respectively. The shelf life of our CCMG products is generally three years.





Major CCMG Products

For the years ended 31 December 2012, 2013 and 2014, the sales of our major CCMG products were HK\$30.1 million, HK\$37.8 million and HK\$41.3 million, accounting for approximately 12.4%, 12.3% and 12.7% of our total CCMG product sales for the same periods, respectively. The average selling prices of our major CCMG products in 2013 increased overall by approximately 4.0%, compared to those in 2012, and the average selling prices of our major CCMG products in 2014 increased overall by approximately 3.2%, compared to those in 2013.

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The table below set forth the selective information of our major CCMG products by category as at 31 December 2014:

(1) Single formulae products

Product name	Intended treatment	Product package	Year of launch
 Radix Paeoniae Alba (白芍)	Regulates the menses	200 grams of granules per bottle	1999
 Poria (茯苓)	Enhances digestive system	200 grams of granules per bottle	1999
 Radix et Rhizoma Salviae Miltiorrhizae (丹参)	Improves blood circulation	200 grams of granules per bottle	1999
 Radix Astragali (黄芪(北芪))	Enhances immunity	200 grams of granules per bottle	1999
 Radix Codonopsis (党参)	Enhances the digestive system	200 grams of granules per bottle	1999
 Radix Puerariae Lobatae (葛根)	Relieves body heat and preserves body fluid	200 grams of granules per bottle	1999
 Radix Ophiopogonis (麦冬)	Relieves dry cough	200 grams of granules per bottle	1999
 Caulis Polygoni Multiflori (首乌藤(夜交藤))	Releases stress and calms the mind	200 grams of granules per bottle	1999

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(2) Combo formulae products

Product name	Intended treatment	Product package	Year of launch
 <p>Ba Zhen Tang (八珍湯)</p>	Enhances immunity and promotes blood circulation	200 grams of granules per bottle	1999
 <p>Liu Wei Di Huang Wan (六味地黃丸)</p>	Regulates bodily function and strengthens the muscles and joints	200 grams of granules per bottle	1999
 <p>Sang Ju Yin (桑菊飲)</p>	Stops coughing	200 grams of granules per bottle	1999
 <p>Bu Zhong Yi Qi Tang (補中益氣湯)</p>	Enhances immunity	200 grams of granules per bottle	1999
 <p>Jia Wei Xiao Yao San (加味逍遙散)</p>	Relieves anxiety	200 grams of granules per bottle	1999
 <p>Shen Ling Bai Zhu San (參苓白朮散)</p>	Enhances the digestive system	200 grams of granules per bottle	1999
 <p>Suan Zao Ren Tang (酸棗仁湯)</p>	Improves insomnia	200 grams of granules per bottle	1999
 <p>Gui Pi Tang (歸脾湯)</p>	Replenishes blood and strengthens the digestive system	200 grams of granules per bottle	1999

Nong's® (農本方)® CMCMS

Overview

Our CMCMS is a complete system incorporating Chinese medicine, Chinese medicine clinic management and dispensing, and related services. It is a modernised, fully-computerised Chinese medicine clinic management and dispensary system equipped with technologically advanced safety control. Our CMCMS is developed to automatically manage the entire service process from patient registration, organisation of patient electronic records, medical diagnosis, prescription processing, inventory management, to CCMG product dispensation. Our CMCMS enables us to provide a total solution of Chinese medicine products and related clinic management services to our customers, and at the same time provides a solid platform for continuous future evidence-based research in Chinese medicine.

We successfully launched our CMCMS in 2002 and our CMCMS was the first computerised Chinese medicine dispensary system recognised by the Hong Kong Hospital Authority. The system is also under our Nong's® (農本方)® brand, and we recommend the use of our CMCMS to hospitals, Chinese medicine clinic, medical institutions and private Chinese medicine practitioners who prescribe CCMG products to patients. We have continuously fine-tuned and improved the design and various functions of our CMCMS since then with the primary objective to continuously improve the clinic services and operation, thereby enabling Chinese medicine practitioners and nurses to dispense our CCMG products in an efficient manner and with quick turnaround time, while preventing cross-contamination among different prescribed Chinese medicines arising from different prescriptions.

Key Advantages

The following picture illustrates a standard model of our CMCMS:



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Our CMCMS is of a modular design which consists of a computerised dispensary system, a medicine storage shelf, cabinet units and other equipment (such as electronic scale, mixer and packing machine). We commissioned Millot.Design, a renowned French industrial designing firm, to design the ergonomic medicine storage shelf and cabinet units of our CMCMS and commissioned Yuyama Co., Ltd, one of the largest CCMG product dispensary equipment suppliers in Japan, to design the packing machine used in our CMCMS.

The key advantages of our CMCMS are set forth below:

- *Efficient spatial design.* With the use of pull-out cabinet and arc-shape shelf design, we maximise the utilisation of storage space with a high degree of flexibility. Our CMCMS is highly modularised and takes up minimal space. It can fit into an area as small as five sq.m., adapting to all types of space configuration for clinical use within hospitals, Chinese medicine clinics and medical institutions.
- *Ergonomic design with easy access.* Our CMCMS allows Chinese medicine practitioners and nurses to reach easily to our entire range of CCMG products during prescription dispensation, taking into consideration their ergonomic curve and dispensing requirements.
- *Packaging.* With the packing machine of our CMCMS, Chinese medicine practitioners and nurses can pack our CCMG products in different sizes conveniently and efficiently to meet their various prescription and dosage requirements. The design of the packing machine also minimises cross-contamination among different prescribed Chinese medicines arising from different prescriptions, thereby ensuring product safety.
- *Traceability.* Our CMCMS has strong traceability which allows hospitals, Chinese medicine clinics and medical institutions to establish and maintain the prescription identification records of patients (such as patient names and their prescription dosages) who use our CCMG products with a minimal risk of error.
- *Inventory control.* Our CMCMS provides various functions relating to procurement, stocking, inventory count and stock adjustment of our CCMG products, enabling each Chinese medicine clinic maintain an adequate level of inventories for its proper operation.







We have chosen Herbminers, an entity affiliated with our Controlling Shareholder(s), to develop the computer software for our CMCMS. Such software has been licensed to us by Herbminers with a fixed amount pursuant to an agreement for a term of three years. Please also refer to the section headed “Connected Transactions” in this prospectus for further details.

Chinese Healthcare Products






Our Chinese healthcare products consist of general health maintenance products and functional products. General health maintenance products are used by consumers primarily for maintaining overall health and general wellbeing, and are not targeted to treating a specific health condition or problem, or illnesses. Functional products attempt to target a consumer’s specific health condition or problem, or illnesses, which are not serious in nature. As at 31 December 2014, we offered over 30

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Chinese healthcare products. The selling prices of our Chinese healthcare product ranged from HK\$38 to HK\$3,300 during the Track Record Period. The shelf life of our Chinese healthcare products is generally three years. The table below sets forth details of our major Chinese healthcare products as at 31 December 2014.

Product name	Intended treatment	Product package	Year of launch
 PuraGold® (金靈芝)®	Protects and rejuvenates bodily functions and increases immunity	90 capsules per pack	1999
 Oncozac® (安固生藥用雲芝)	Strengthens bodily immunity to combat serious illnesses	100 capsules per pack; or 300 capsules per pack	2003
 Haveron® Ultra Strength Formula for Men/Women (烏髮濃®男士/女士專用特效配方)	Oral hair-rejuvenating product to strengthen hair and mitigate hair loss and hair whitening problems	60 capsules per pack	2001
 Haveron® Rejuvenating Shampoo for Men/Women (烏髮濃®男女/專用健髮洗髮露)	Chinese herbal shampoo for strengthening hair and mitigating hair loss and hair whitening	240 ml per bottle; or 500 ml per bottle	1999
 Nong's® Flu Formula — Yin Qiao San (農本方®感冒沖劑 - 銀翹散)	Soothes flu and cold symptoms including fever and headache	Six sachets per pack	1999
 Nong's® Cough Formula — Zhi Sou San (農本方®止咳沖劑 - 止嗽散)	Soothes cough and sore throat	Six sachets per pack	1999

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Product name	Intended treatment	Product package	Year of launch
 <p>Nong's® Dry Throat & Cough Formula — Luo Han Guo (農本方®複方羅漢果止咳沖劑)</p>	Soothes dry throat and relieves cough	Ten sachets per pack	2003
 <p>Arashi Kuni® Cordyceps Mycelium (嵐國®蟲草菌絲)</p>	Improves immunity and builds body strength and endurance; and enhances lungs and the respiratory health and improves cardiovascular health	72 capsules per pack	2003
 <p>Cardio Clear® (心全一通®)</p>	Improves cardiac health and may assist in stabilising blood lipids/cholesterol	72 capsules per box	1999
 <p>PuraPharm Liver Formula, PuraPharm Nasal Formula (培力補肝配方)(培力鼻敏感配方)</p>	Liver Formula strengthens liver functions; and nasal Formula relieves symptoms of nasal allergy and hay fever	60 capsules per box	1999
 <p>Immuzac® (益抗適®)</p>	Strengthens immune functions and guards against diseases and infection and increases one's resistance to illnesses and maintains vitality	60 capsules per pack	1999

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SALES AND DISTRIBUTION NETWORK

We adopt different sales and distribution models in Hong Kong and the PRC for our CCMG products and Chinese healthcare products as set forth below:

Hong Kong

- *CCMG products.* We sell our CCMG products directly to hospitals, Chinese medicine clinics, non-profit organisations, pharmacy chain stores and private Chinese medicine practitioners, all of whom then prescribe and sell our CCMG products to patients. We have also established our Nong's® (農本方)® Chinese medicine clinics and entered into relevant contracts with registered private Chinese medicine practitioners who operate these clinics for us and prescribe our CCMG products to patients; and
- *Chinese healthcare products.* We sell our Chinese healthcare products directly to major pharmacy chain stores, pharmacy stores, western practitioners, clinics and individual end consumers. These stores and clinics then sell our Chinese healthcare products to end consumers. In addition, we sell some of our Chinese healthcare products in the U.S. market through a third party distributor.

PRC

- *CCMG products.* We sell our CCMG products through both distributors and direct sales channels. Under our distributor model, we sell our CCMG products to distributors, who then resell our products to approved hospitals and medical institutions for clinical use. Under our direct sales model, we sell our CCMG products directly to approved hospitals and medical institutions for clinical use through our own marketing and sales team; and
- *Chinese healthcare products.* We sell a very small portion of our Chinese healthcare products directly to a limited number of end consumers.

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The following table sets forth a breakdown of our revenue by business segment, region and sales channel for the periods indicated.

	Year ended 31 December					
	2012		2013		2014	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	<i>HK\$'000</i>		<i>HK\$'000</i>		<i>HK\$'000</i>	
CCMG product sales	243,800	84.7	307,072	89.7	324,825	88.7
<i>Hong Kong</i>						
Direct sales	118,148	41.0	132,885	38.8	145,234	39.7
Product sales through Chinese medicine clinics ...	2,169	0.8	2,432	0.7	4,351	1.2
<i>PRC</i>						
Sales to distributors	87,275	30.3	95,148	27.8	94,103	25.7
Direct sales	36,208	12.6	76,607	22.4	81,137	22.1
Chinese healthcare product sales	43,359	15.1	34,565	10.1	40,069	10.9
<i>Hong Kong</i>						
Direct sales	33,764	11.7	31,503	9.2	38,511	10.5
Sales to distributors	6,809	2.4	579	0.2	1,474	0.4
<i>PRC</i>						
Direct sales	2,786	1.0	2,483	0.7	84	0.0
Subtotal	287,159	99.8	341,637	99.8	364,894	99.6
Service income through Chinese medicine clinics	652	0.2	666	0.2	1,458	0.4
TOTAL	287,811	100.0	342,303	100.0	366,352	100.0

Sales of CCMG Products in Hong Kong

In Hong Kong, we sell our CCMG products primarily through our own marketing and sales team directly to hospitals, Chinese medicine clinics, non-profit organisations (such as Pok Oi Hospital (博愛醫院) and Yan Oi Tong (仁愛堂)), Chinese medicine departments within pharmacy chain stores (such as Watsons) and private Chinese medicine practitioners, all of whom then prescribe and sell our CCMG products to patients. Some of these non-profit organisation customers also operate their own mobile clinics to provide medical services to the public and we sell our CCMG products to these mobile clinics.

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As at 31 December 2012, 2013 and 2014, our CCMG products were sold to over 500, 1,000 and 1,200 customers, covering hospitals, Chinese medicine clinics, non-profit organisations, Chinese medicine departments within pharmacy chain stores and private Chinese medicine practitioners in Hong Kong, respectively. Currently, we are the sole supplier of CCMG products to the Hong Kong Hospital Authority. There is currently a total of 18 public hospitals with Chinese medicine departments as well as Chinese medicine clinics under the administration of the Hong Kong Hospital Authority, and our CCMG products are sold to all of them. As at 31 December 2012, 2013 and 2014, our CCMG products were sold to 16, 17 and 18 hospitals and Chinese medicine clinics within the Hong Kong Hospital Authority network, respectively, which on an aggregated basis accounted for 6.6%, 6.3% and 6.4% of our total revenue for the same periods. As at the same dates, we also had 15 non-profit organisation customers in Hong Kong, respectively.

We have adopted the Chinese medicine clinic business model for establishing our Nong's® (農本方)® Chinese medicine clinics in Hong Kong. Please refer to the subsection headed “— Sales and Distribution Network — Sales of CCMG Products in Hong Kong — Business Model of Nong's® (農本方)® Chinese Medicine Clinics” in this section for further details on the business model. We enter into contracts with registered private Chinese medicine practitioners who operate these clinics for us, provide diagnostic services and prescribe our CCMG products to patients. As at the Latest Practicable Date, we had 13 Nong's® (農本方)® Chinese medicine clinics in operation.

During the Track Record Period and up to the Latest Practicable Date, all of our customers of CCMG products in Hong Kong were Independent Third Parties.

Relationship with Our Hong Kong Customers

We have been supplying CCMG products to the Hong Kong Hospital Authority for 11 consecutive years since January 2004. The Hong Kong Hospital Authority adopts a rigorous public tendering process to select its suppliers. The Hong Kong Hospital Authority regularly invites suppliers in Hong Kong to submit tender for its Chinese medicine procurement. When our tender offer is accepted, the Hong Kong Hospital Authority enters into a contract with us for a term ranging from one to three years with specifications including, among others, the types, quantities, packaging sizes and prices of products. Since 2004, the Hong Kong Hospital Authority has renewed relevant tender contracts with us for nine times. Our latest tender contract with the Hong Kong Hospital Authority has a term of two years and will expire in September 2016.

We generally enter into relevant agreements with other customers comprising hospitals, Chinese medicine clinics, non-profit organisations and pharmacy chain stores for a contract term ranging from one to three years depending on the customer type, specifying the prices and quantities of CCMG products. In some cases, the contract term may be automatically renewed unless terminated by either party with three months' advance notice. Certain large scale non-profit organisations conduct tendering processes to select their CCMG product suppliers. We reserve the right to terminate the relevant agreements upon any breach by customers. We arrange the delivery of our products to our customers in Hong Kong and bear the delivery costs.

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Business Model of Nong's® (農本方)® Chinese Medicine Clinics

We established our first Nong's® (農本方)® Chinese medicine clinic in the Hong Kong Science Park in 2011. Under this model, we enter into relevant contracts with registered Chinese medicine practitioners, who possess the required Chinese medicine education and qualifications. We provide our CCMG products and CMCMS equipment for their operation of these clinics. We also negotiate with property owners of shopping malls and local community centres to secure leased spaces, and remodel leased spaces for these clinics. The Chinese medicine practitioners operate these clinics for us, provide diagnostic services and prescribe our CCMG products to patients. We derive revenue from the sales of our CCMG products and the service income for diagnostic services provided by Chinese medicine practitioners through these clinics. Each practitioner shares a certain percentage of the monthly net profit of our Nong's® (農本方)® Chinese medicine clinic he or she operates and receives relevant payment from us. In 2014, we replicated this Nong's® (農本方)® Chinese medicine clinic business model across Hong Kong. As at the Latest Practicable Date, we have established 13 Nong's® (農本方)® Chinese medicine clinics. We plan to further increase the total number of such clinics to 30 by the end of 2015. Please refer to the paragraph headed “Risk Factors — We are subject to certain risks relating to the management and operation of our Nong's® (農本方)® Chinese medicine clinics” for further discussion on our potential liabilities relating to our Chinese medicine clinics.

Sales and Installation of CMCMS

In Hong Kong, we generally sell our CMCMS to CCMG product customers through our marketing and sales team. We recommend, but do not require, customers who purchase our CCMG products to install our CMCMS. In very limited instances, we provide our CMCMS, together with the relevant design and installation plan of the dispensary system and computer software at our discretion, to certain customers who we believe have high growth potential. Customers are required to return our CMCMS upon the expiry of their relevant contracts with us or termination of their business relationship with us. We work closely with our customers' contractors to ensure the proper installation of our CMCMS at their designated locations. In cases where our customers have their own computer systems, we set up our dispensing software in collaboration with their own IT contractors. In all cases, our engineers supervise the whole installation process to ensure the proper functioning of our CMCMS and interface with our customers' systems.

For the years ended 31 December 2012, 2013 and 2014, revenue generated from the sales of our CMCMS in Hong Kong was approximately HK\$2.8 million, HK\$1.6 million and HK\$933,000, and the relevant costs incurred by us were approximately HK\$1.9 million, HK\$875,000 and HK\$546,000, respectively. Such costs incurred were expended and offset against the revenue from the sales of CMCMS in Hong Kong for the same period, and the resulting net gains were recorded as “other income and gains” in our consolidated statement of profit and loss.

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Logistic Arrangements and Product Delivery in Hong Kong through DKSH

In 2012, we entered into an agreement with DKSH, a leading market expansion service provider in Hong Kong, for a term of five years. The agreement is automatically renewed for a successive term of one year unless either party terminates the agreement by six months' written notice. DKSH has the exclusive right to deliver all our CCMG products sold to our customers in Hong Kong in accordance with our instructions. DKSH is responsible for processing, customer servicing, warehousing, transportation, invoicing and account receivable collection in relation to our CCMG product sales in Hong Kong. We pay a fixed percentage service fee to DKSH based on the relevant transaction amounts of our CCMG products. DKSH sends us a monthly sales report and service fee invoice. After we approve the relevant amounts, DKSH will deduct its service fee from the monthly total sales amount and pay us the net balance.

DKSH does not have the right to set the selling prices of our CCMG products, and DKSH does not bear any inventory risks associated with our CCMG products sold or to be sold in Hong Kong, nor bears any risk as a result of default in customer payment. As such, our relationship with DKSH is deemed as a principal-agent relationship. Accordingly, the relevant transactions through DKSH are accounted for as sales to our customers rather than sales to DKSH.

We have selected DKSH primarily due to its extensive transportation network, strong logistics service capability and reputable brand name. DKSH has its headquarters in Zurich, Switzerland. With a focus on Asia, the entire DKSH group operates in 35 countries in the world. The group is one of Switzerland's top 30 companies ranked by sales and employees, and has been publicly listed on the Swiss Exchange since March 2012. Its net sales reached CHF9.8 billion in 2014 and the group employs 27,600 specialized staff. The group has been in operation in the Asian markets for 150 years. Moreover, DKSH commenced business in Hong Kong in 1923. It provides comprehensive market expansion services from sourcing, marketing and sales, distribution and logistics, to after-sales services to companies in various industries. DKSH offers tailored business solutions in four different fields, namely consumer goods, healthcare, performance materials and technology. It is well-known as a professional and experienced provider of comprehensive services covering all the critical elements needed for a successful sales and marketing mix. Its consumer goods unit in Hong Kong is Asia's leading market expansion services specialist. Its healthcare unit is the leading partner for healthcare companies seeking to grow their business in Hong Kong and Macau.

We grant DKSH a credit period of 30 days from the last day of the month when our CCMG products are delivered to customers. During the Track Record Period, we did not experience any material delay in payments, nor any material breach of our agreement with DKSH. DKSH is a reputable global logistic service provider. In view of our long term business relationship with DKSH for 16 years and its timely settlement of payments with us according to contracted credit term during such period, our Directors consider that the risk of default or delay in payment by DKSH is remote. Our Directors further confirm that our logistic arrangements and product delivery through DKSH are consistent with the industry norm in the Hong Kong CCMG product market.

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Sales and Distribution of CCMG Products in the PRC

In the PRC, we sell our CCMG products through distributors who then resell our products to approved hospitals and medical institutions for clinical use. We also sell our CCMG products directly to approved hospitals and medical institutions for clinical use through our own marketing and sales team. These hospitals and medical institutions prescribe and sell our CCMG products to their patients. As at 31 December 2014, our CCMG products were sold to over 300 hospitals and medical institutions in over 20 provinces, autonomous regions and municipalities in the PRC. During the Track Record Period and up to the Latest Practicable Date, all of our customers of CCMG products in the PRC were Independent Third Parties. Going forward, we plan to expand our sales and distribution network for broader market coverage in new geographical areas and deepen our penetration in our target markets in the PRC.

PRC Distributors

Overview

Our PRC distributors who resell our CCMG products are primarily located in the Shanghai municipality, as well as Fujian, Anhui, Hubei and Hunan Provinces. We have established an extensive distribution network in the PRC. As at 31 December 2012, 2013 and 2014, we had 112, 101 and 95 distributors in the PRC, respectively.

With our extensive distribution network, we benefit from our distributors' established distribution channels and resources, save costs that would otherwise be required to establish an extensive logistics network across the PRC, and increase the effectiveness of launching and selling our CCMG products in our target markets within a short period of time.

The following table sets forth the movement of the number of our distributors for the periods indicated below:

	Year ended 31 December		
	2012	2013	2014
Number of distributors at the beginning of the year	98	112	101
Additions of new distributors	21	14	12
Termination of existing distributors.....	7	25	18
Net increase/(decrease) in distributors.....	14	(11)	(6)
Number of distributors at the end of the year	112	101	95

In line with our plan to expand our distribution network and strengthen our market position in the PRC, we strive to increase the geographical sales coverage of our CCMG products and engage distributors who have strong or well-established distribution channels in our target markets. During the Track Record Period, in accordance with our ongoing policy on distributor management, we terminated our contractual relationship with certain distributors due to performance reasons and as part of our efforts to consolidate our distribution network.

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The following table sets forth the number of distributors by province and municipality as at the dates indicated below:

	As at 31 December		
	2012	2013	2014
Hubei	23	17	15
Anhui	10	9	9
Chongqing	7	8	8
Shanghai	5	6	8
Jilin	11	10	7
Shandong	7	7	7
Fujian	5	5	5
Guangdong	4	4	5
Yunnan	12	5	5
Guizhou	3	4	4
Liaoning	4	5	4
Hunan	3	3	3
Sichuan	3	3	3
Guangxi	4	2	2
Hebei	1	1	2
Inner Mongolia	2	3	2
Jiangxi	3	3	2
Beijing	1	1	1
Heilongjiang	1	1	1
Henan	2	3	1
Tianjin	1	1	1
Total	<u>112</u>	<u>101</u>	<u>95</u>

We believe there is no standard distributorship model or any industry norm of distribution network among Chinese medicine manufacturers in the PRC. The distributorship model of each manufacturer generally covers certain sales channels through which its products are sold and distributed, with a particular focus on certain sales channels where it intends to build up its competitive advantage in the Chinese medicine product market.

To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, all of our distributors were Independent Third Parties, and none of our distributors were wholly-owned or majority controlled by our current or ex-employees. To the best knowledge of our Directors, our distributors are primarily engaged in the business of distributing western pharmaceutical and/or Chinese medicine products in the PRC.

Standard Distribution Agreement

We generally enter into standard distribution agreements with our distributors with a term ranging from one to three years. All of our distributors purchase our products as principals by placing purchase orders with specifications on the prices, types and quantities of CCMG products. We

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generally sell our CCMG products to our distributors at mutually agreed prices. Such price is equal to a certain percentage of the retail price of each CCMG product. After we accept the purchase orders, we arrange the delivery of our products to our distributors and bear the delivery costs.

The table below sets out a summary of the principal terms of our standard distribution agreements:

Principal terms	Summary
Term of agreements	Ranging from one to three years, which is renewable with advance written notice.
Termination	Either party with 15 days' advance notice to the other party upon failure by the other party to perform any obligation or breach of relevant terms under the agreement; or no notice is required, upon the occurrence of any of the following: (i) either party is in liquidation; (ii) a change in the distributor's shareholding ratio; (iii) a disruption in the distributor's business operation due to significant financial difficulties; (iv) any circumstance that seriously affects the distributor's ability to perform any obligation under the agreement; or (v) a breach of certain provisions under the agreement, including distribution restrictions, confidentiality and non-competition undertakings.
Distribution only to approved hospitals and medical institutions specifically authorised by us (yes/no)	Yes
Retail price	We generally do not impose a fixed retail price on our distributors.
Minimum purchase amount	We generally do not require a minimum purchase amount by our distributors.
Delivery costs	We bear delivery costs.
Sales target	We generally do not impose sales target on our distributors, except that some distributors may agree to meet certain sales targets or develop a certain number of approved hospitals and medical institutions as customers over a certain period of time under separate agreements.
Rebate or discount	We generally do not offer rebate or discount to our distributors.
Return or exchange of defective products (yes/no)	Yes
Return of unsold products (yes/no)	No
Confidentiality undertaking (yes/no)	Yes
Non-competition undertaking (yes/no)	Yes

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Approved Hospitals and Medical Institutions

We typically require our distributors to obtain our prior approvals for their distribution lists of approved hospital and medical institutions to avoid cannibalisation among them. Without our written consent, our distributors are not permitted to sell our CCMG products to other approved hospitals or medical institutions which we have not specifically authorised. If we become aware that a distributor has conducted unauthorised sales, we have the right to request the distributor to make relevant product recall within a specific period of time and even terminate the distribution agreement. We can also claim damages incurred due to any breach by the distributor. In the event that the distributor discovers that any of the hospitals and medical institutions specifically authorised by us have not been approved by the relevant authorities for clinical use, the distributor shall notify us promptly. In addition, we require our sales representatives to conduct regular on-site inspections on our distributors and their customers and keep track of any potential cannibalisation or competition among our distributors. During the Track Record Period, we were not aware of any material cannibalisation or competition among our distributors within the same sales region.

Management of Our Distributors

In selecting our distributors, we carefully evaluate the background and credentials of potential candidates according to our internal policy. We conduct due diligence to verify whether potential distributors in the PRC have obtained the required permits and licenses for the distribution of our CCMG products. We also take into account a series of factors, including the coverage of their distribution channels, warehousing facilities, delivery capabilities, operating and business management capabilities, creditworthiness and compatibility with our business strategies. We typically select distributors that have experience in the distribution of western pharmaceutical and/or Chinese medicine products in the PRC.

We require our sales representatives to complete the following tasks on a regular basis: (i) conducting regular inspections on our distributors and their customers (from bi-weekly to bi-monthly depending on the operational scale of each distributor and their customers) to collect information about their sales volumes, selling prices, inventory levels and sales returns of our CCMG products; (ii) ensuring that our CCMG products are distributed by our distributors to the approved hospitals and medical institutions specifically authorised by us; and (iii) monitoring the number of distributors in any given sales region. Although we generally do not require our distributors to submit monthly sales and inventory reports and estimates, through these inspections, we are able to ensure that the terms and conditions of the distribution agreements are being complied with throughout our distribution network. As soon as we discover any violating activity of a distributor, we inform the relevant distributor and request the distributor to cease such violating activity within a requested time limit. Our distributors are also liable for breaches of the relevant distribution agreements and are required to pay us certain fines for any breach. We reserve the right to terminate the distribution agreements if our distributors breach certain provisions as stipulated in the agreements. Please also refer to the subsection headed “ — Sales and Distribution Network — Credit Management Policy” in this section for further details on credit period we generally grant to our distributors in the PRC.

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We have taken the following measures to prevent excess inventory at the distributor's level:

- *Monitoring of sales status and inventory level.* We have the right to request our distributors to regularly submit inventory reports as well as provide the sales status and inventory levels of CCMG products for themselves and their customers according to the terms of our standard distribution agreements. In the past, we have requested such reports and information and we have conducted regular inspections on our distributors and their customers for the purpose of our effective management.
- *Review of monthly product shipment amount.* We review the monthly product shipment amount of each distributor. If we become aware of any unusual significant increase in such shipment amount, we ask the relevant distributor to explain the reason for such increase. We also compare the monthly product shipment amount of such distributor with its historical product purchases, sales amounts and inventory levels.
- *Product return policy.* Our customers can return only defective or damaged products, and we do not offer any warranty for our products, according to the terms of our standard distribution agreements. For the years ended 31 December 2012, 2013 and 2014, the total amount of product return was approximately HK\$1.1 million, HK\$502,000 and HK\$ 536,000, accounting for approximately 0.4%, 0.1% and 0.1% of our total revenue for the same periods, respectively.

Through the above measures, we have been able to ensure that our product sales to our distributors reflect genuine customer sales. Please also refer to the paragraph headed "Risk Factors — Our ability to accurately track the inventory levels of our distributors is limited, which may make it difficult for us to accurately predict sales trends" in this prospectus for further details.

Framework Agreement with Sinopharm

In December 2014, we entered into a distribution framework agreement with Sinopharm International, a Hong Kong subsidiary of Sinopharm which is one of the largest distributors of pharmaceutical and healthcare products in the PRC, whereby Sinopharm International agreed to use the established distribution networks and strong logistics service capabilities of its affiliated companies to sell and distribute our CCMG products in our target markets. In the first quarter of 2015, we further entered into relevant agreements with Sinopharm International and its affiliated group companies in Fujian Province and Tianjin Municipality, respectively, pursuant to which we granted these affiliated companies the exclusive right to sell and distribute our CCMG products in the

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respective sales regions. The table below sets forth a summary of the principal terms of our framework agreement with Sinopharm International:

Principal terms	Summary
Term of agreements	Three years
Termination	(i) Mutual consent between parties; (ii) Sinopharm International's inability to introduce any Sinopharm group company within the first year after the effective date of the agreement; (iii) either party's written notice to the other party upon a breach of the non-competition undertaking by the other party; and (iv) either party with 15 days' advance notice to the other party upon failure by the other party to perform any obligation or breach of relevant terms under the agreement.
Existing distributors	The rights of existing distributors (if any) to distribute our CCMG products in the relevant sales regions remain effective.
Right to appoint other distributors	We have the right to appoint other distributors to distribute our CCMG products in the relevant sales regions with 30 days' advance notice.
Distribution only to approved hospitals and medical institutions specifically authorised by us (yes/no)	Yes
Establishment and operation of new Chinese medicine dispensaries	Sinopharm must establish and operate new Chinese medicine dispensaries in approved hospitals and medical institutions in the PRC specifically authorised by us.
Required qualifications	Sinopharm must meet the following requirements: (i) obtain the relevant pharmaceutical distribution permit in the PRC; (ii) have strong logistics service capability in the PRC; (iii) provide capable technicians who pass our qualification tests and are able to repair CMCMS equipment (following training with us); and (iv) maintain a professional service, marketing and sales team.
Confidentiality undertaking (yes/no)	Yes
Non-competition undertaking (yes/no)	Yes

Similar to our arrangements with other PRC distributors, Sinopharm is responsible for establishing new Chinese medicine dispensaries in approved hospitals and medical institution and bears the cost of renovation. It retains the title to the assets in connection with such renovation which it contributes to the establishment of the relevant dispensaries. We will provide the CMCMS, together with relevant operational procedure, equipment cleaning standards, and design and installation plan, to Sinopharm so that it is able to establish and operate new Chinese medicine dispensaries in accordance with our standards and requirements. We will retain the title to the CMCMS that are installed in the relevant dispensaries, and such CMCMS are recorded as "property, plant and

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equipment” and depreciated according to our accounting policies. Furthermore, in addition to the normal scope of our engagement with distributors, we will establish a training team to provide necessary guidance and support to Sinopharm to comply with our requirements with respect to the personnel training and management for equipment maintenance, the composition of their distribution team and the monthly submission of its sales forecast, inventory level and sales amount to us.

Direct Sales to Approved Hospitals and Medical Institutions for Clinical Use

In addition to the distribution of our CCMG products, we also sell some of our CCMG products directly to approved hospitals and medical institutions in the PRC for clinical use through our marketing and sales team. As at 31 December 2012, 2013 and 2014, we sold our CCMG products directly to 46, 67 and 81 hospitals and medical institutions in the PRC, respectively.

We generally enter into CCMG product supply agreements for clinical use with our direct sales customers for a term of one to five years, and these supply agreements are generally renewable with one month’s notice. The prices of our CCMG products are generally fixed during the term of the agreements, but each party may seek price adjustment with one month’s written notice. We also provide training to our direct sales customers on how to operate and maintain our CMCMS and the relevant equipment, as well as relevant clinic services. We may terminate the CCMG product supply agreements upon any breach by our direct sales customers. During the Track Record Period, we are not aware of any material breach by our direct sales customers.

Provision and Operation of CMCMS

In the PRC, we provide our CMCMS to customers either through our marketing and sales team or through our distributors. We recommend, but do not require, customers who purchase our CCMG products to install our CMCMS. In the case of our direct sales to customers, we provide our CMCMS, together with the relevant design and installation plan of the dispensary system and the computer software, to the approved hospitals and medical institutions to which our CCMG products are sold, and install the system at their designated locations. Such hospitals and medical institutions usually have their own IT contractors to establish connections between our CMCMS and their systems for security reasons. We generally despatch a team of engineers to supervise the whole installation process to ensure the smooth integration of our CMCMS into their system. In the case of our indirect sales through distributors, we supply our CMCMS to the end customers through our distributors, together with the relevant design and installation plan of the dispensary system as well as the computer software, in accordance with our relevant distribution agreements.

In addition, we have detailed standard operating procedures and manual on the operation and maintenance of our CMCMS. For approved hospitals and medical institutions which have newly installed our CMCMS, we provide on-site trainings to their personnel. We also require such hospitals and medical institutions to despatch medicine dispensary personnel to undergo thorough CMCMS management and equipment maintenance trainings. Such personnel must pass our qualification tests before they can operate and maintain our CMCMS. Such hospitals and medical institutions are responsible for routine equipment maintenance and repair of our CMCMS for their daily operation. In case there is any equipment failure or software usage problem which such hospitals and medical

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institutions cannot resolve by themselves, we provide on-site technical support, repair and replacement services. We bear the repair and replacement cost only when the equipment failure is caused by normal wear and tear.

As we provide our CMCMS free of charge to customers in the PRC who purchase our CCMG products either through direct sales or through distributors, we retain the title and ownership of our CMCMS. Customers are required to return our CMCMS upon the expiry of their relevant contracts with us or termination of their business relationships with us, and they are responsible for any loss or damage arising thereunder during the time when our CMCMS is under their custody. The value of our CMCMS provided to our PRC customers amounted to HK\$2.7 million, HK\$4.8 million and HK\$2.5 million for the years ended 31 December 2012, 2013 and 2014, respectively, and are recorded as “property, plants and equipment” in our consolidated statements of financial position.

Logistic Arrangement in the PRC

We generally use third party logistics service providers to transport our CCMG products from our manufacturing facilities to our distributors and direct sales customers in the PRC. These service providers have extensive logistics networks covering a large number of provinces and municipalities in the PRC. We enter into relevant agreements with these providers with a term of one year which is renewable with prior notice. These providers are required to indemnify us for any damages and losses to our CCMG products during transportation under these agreements. During the Track Record Period, there was no material damage or loss to our CCMG products during transportation under these agreements.

Sales and Distribution of Chinese Healthcare Products in Hong Kong

Our Chinese healthcare products are primarily sold in Hong Kong. The final manufacturing process of encapsulation and packaging for some of our Chinese healthcare products are completed in Hong Kong through licensed third party manufacturers. Prior to engaging a third party manufacturer, we check to ensure that such manufacturer holds the requisite licenses and permits for the manufacturing of our Chinese healthcare products that cover the period which we intend to collaborate with them. We sell these finished products to major pharmacy chain stores (such as Mannings, Watsons, CR Care and 7-Eleven), pharmacy stores, western practitioners, clinics and individual end consumers. These stores and clinics then sell our Chinese healthcare products to end consumers. We use Zuellig, a major logistics service provider, to manage the sale of our Chinese healthcare product to these customers in Hong Kong. Moreover, we operate a direct consumer loyalty membership scheme, our PuraPharm Club, through which individual members can directly purchase our Chinese healthcare products at a discount and benefit from our quality after-sales services (such as provision of product information and product selection advice).

As at 31 December 2012, 2013 and 2014, our Chinese healthcare products were sold to over 600, 950 and 1,000 customers, comprising pharmacy chain stores, pharmacy stores, western practitioners, clinics and individual customers in Hong Kong, respectively. As at 31 December 2014, our Chinese healthcare products were sold in over 1,100 pharmacy chain stores and pharmacy stores in Hong Kong. During the Track Record Period and up to the Latest Practicable Date, all of our customers of Chinese healthcare products in Hong Kong were Independent Third Parties.

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Logistic Arrangements and Product Delivery in Hong Kong through Zuellig

In February 2012, we entered into a distribution agreement with Zuellig for a term of three years, which is automatically renewed for successive terms of one year each unless either party terminates the agreement by six months' written notice. Zuellig provides logistics services including storage, transportation, order processing, invoicing and account receivable collection services for our Chinese healthcare product sales (other than direct sales to individual consumers, for which we engage another third party logistics service provider for delivery of our Chinese healthcare products) in Hong Kong. Zuellig generally processes purchase orders from our customers. From time to time, Zuellig first obtains our approval for certain contractual terms, and then enters into the relevant agreements with our customers. Major terms of such agreements mainly include the types, amounts and calculation bases of relevant discounts, allowances and rebates (where applicable). Zuellig delivers most of our Chinese healthcare products sold to our customers in Hong Kong in accordance with our instructions and collects customer payments at the prices stipulated in the relevant agreements between Zuellig and our customers. We pay a fixed percentage fee to Zuellig based on the relevant transaction amounts of our Chinese healthcare products. Zuellig sends us a monthly sales report and service fee invoice. After we approve the relevant amounts, Zuellig will deduct its service fee from the monthly total sales amount and pay us the net balance.

Zuellig does not have the right to set the selling prices of our Chinese healthcare products, and Zuellig does not bear any inventory risks associated with our Chinese healthcare products sold or to be sold in Hong Kong. As such, we deem our relationship with Zuellig to be a principal-agent relationship. Accordingly, the relevant transactions through Zuellig are accounted for as sales to our customers rather than sales to Zuellig.

We have selected Zuellig primarily due to its extensive transportation network, strong logistics service capability and reputable brand name. Zuellig has provided services to healthcare and pharmaceutical companies since 1922 and currently operates in 13 countries in Asia. It provides tailored distribution services in the following areas in the healthcare industry, namely pharmaceuticals, medical devices and diagnostics, consumer health, clinical reach, pharma bio-logistics, and specialized solutions.

We grant Zuellig a credit period of 30 days from the last day of the month when our Chinese healthcare products are delivered to customers. Zuellig provides logistics services for most of our Chinese healthcare product sales in Hong Kong and bears relevant credit risks. From time to time, Zuellig enters into agreements with certain customers according to our instruction. These arrangements reduce our exposure to the default risk in customer payments. During the Track Record Period we did not experience any material delay in payment by Zuellig, nor any material breach of our agreement with Zuellig. Zuellig is a reputable global logistics services provider. In view of our long term business relationship with Zuellig for 15 years and its timely settlement of payments with us according to contracted credit term during such period, our Directors consider that the risk of default or delay in payment by Zuellig is remote. Our Directors further confirm that our logistic arrangements and product delivery through Zuellig are consistent with the industry norm in the Hong Kong Chinese healthcare product market.

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Sales to Overseas End Users through Hong Kong Distributors

As at 31 December 2012, 2013 and 2014, we had four, two and two distributors for Chinese healthcare products in Hong Kong, respectively. We also sell some of our Chinese healthcare products in the U.S. through a Hong Kong- based third party distributor.

To the best knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, all of our distributors in Hong Kong were Independent Third Parties, and none of these distributors were wholly-owned or majority controlled by our current or ex-employees. To the best knowledge of our Directors, our distributors in Hong Kong are primarily engaged in the business of distributing western pharmaceutical and/or Chinese medicine products.

Sales of Chinese Healthcare Products in the PRC

We sell a very small portion of our Chinese healthcare products directly to a limited number of individual customers. During the Track Record Period and up to the Latest Practicable Date, all of our customers of Chinese healthcare products in the PRC were Independent Third Parties.

Pricing Policy

In Hong Kong, our CCMG products and Chinese healthcare products are not subject to any regulatory price control by the Hong Kong government.

In the PRC, our CCMG products are classified and regulated by the CFDA as traditional Chinese herbal medicines. Most of the provinces in the PRC have accepted traditional Chinese herbal medicines into their respective Provincial Medical Insurance Drugs Catalogues. As at 31 December 2014, our CCMG products have been accepted into the Provincial Medical Insurance Drugs Catalogues in 15 provinces, municipalities and autonomous regions in the PRC. Traditional Chinese herbal medicines accepted into the Provincial Medical Insurance Drugs Catalogues are generally not subject to price control, which is different from western pharmaceuticals accepted into the Provincial Medical Insurance Drugs Catalogue and subject to price control.

We set the prices of our products with reference to a number of factors (such as expected profit margins, prices of raw Chinese herbs, levels of market supply and demand for our products, relevant government policies and prices of competing products). Our relevant departments meet regularly to evaluate the market conditions and discuss the needs of price adjustment where necessary.

The selling prices of our CCMG products in Hong Kong are fixed during the term of the respective agreements (such as those with hospitals overseen by the Hong Kong Hospital Authority as well as non-profit organisations). For our CCMG products in the PRC, we set the prices of our products for different regions. We generally review and adjust our product prices on a quarterly basis according to market trend with one month's notices to our customers. For our Chinese healthcare products in Hong Kong, we usually adjust the selling prices on a yearly basis as our customers of these products are relatively more sensitive to price changes.

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Credit Management Policy

We sell our products either on credit or payment on delivery depending on the credibility of relevant customers and our relationship with them. We typically grant four to six months credit term on the direct sales of our CCMG products to our customers comprising normally state-owned hospitals in the PRC. For the sales of our CCMG products to distributors in the PRC, we typically require cash on delivery for our newly appointed or small distributors, or grant one to two months' credit to our long-term or large distributors. For the sales of our CCMG products and Chinese healthcare products in Hong Kong, we typically grant a credit period of 30 days to customers with which we have long-term relationships or which have made purchases in large quantities. Before we grant credit sales to certain customers, we perform individual credit evaluations on our customers. We grant credit limits or credit terms to our customers based on our evaluation of their payment history, business performance and market position.

During the Track Record Period, we did not experience any significant bad debts, and our bad debts provisions for the years ended 31 December 2012, 2013 and 2014 were HK\$1.2 million, HK\$0.5 million and nil, respectively.

We have monitoring procedures in place to evaluate the performance of our customers, which include maintaining customer credit profiles and periodically assessing customer creditworthiness on a monthly to annual basis, taking into account their payment history and overall creditworthiness. In the event of credit deterioration, we will request our customers to provide guarantees and/or collateral to secure their payment obligations and we may reduce or cancel shipments that have already been ordered. We have maintained long-term relationships with our customers and our customers' repayment history has generally been good. During the Track Record Period, we did not experience any material customer credit deterioration and we did not request any guarantee or collateral from our customers.

Our credit risk is also limited because our customers who purchase on credit sales are mostly state-owned hospitals and medical institutions in the PRC. In order to minimise credit risk, our management has assigned a dedicated team to determine customer credit limits, credit approvals and other monetary procedures to ensure that timely follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade and bills receivable balance at the end of each reporting period to ensure adequate impairment losses are made for irrecoverable amounts. As a result of these measures, our Directors are of the view that our credit management policy is appropriate and the provisions for trade and bills receivables are adequate, and the increases in trade and bills receivables and average turnover days of trade and bills receivables have no material effect on the liquidity and cash flows of our Group. Please refer to the subsection "Financial Information — Discussion of Selected Items from the Consolidated Statements of Financial Position — Trade and Bills Receivables" in this prospectus for further details on subsequent settlement of the trade and bills receivable balance.

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Product Return Policy

We generally only accept sales returns for defective or damaged products without offering any warranty for our products. We reimburse our distributors and direct sales customers for any losses or bear directly the cost of replacement. We generally provide warranties that the products transported to our distributors and direct sales customers are of satisfactory quality and are manufactured, packaged and labelled in compliance with the relevant requirements under PRC and Hong Kong laws. As at the Latest Practicable Date, we had not had any material sales returns from our distributors or direct sales customers and had not experienced any material customer complaint, product recall and product liability or other legal claims due to problems with the quality of our products.

Inventory Control

We review the carrying value of our inventories from time to time. Based on conditions of goods, including aging and expiry, and estimated net realisable value of our inventories, we make provision for impairment of inventories when the inventories become obsolete or damaged and the carrying value declines below the net realisable value. Please see the subsection headed “Financial Information — Discussion of Selected Items from the Consolidated Statement of Financial Position — Inventories” in this prospectus for further discussion on inventory control measures.

Major Customers

For the years ended 31 December 2012, 2013 and 2014, our sales of products to the five largest customers comprising hospitals, non-profit organizations and pharmacy chain stores accounted for approximately 23.9%, 21.6% and 20.3% of our total revenue, respectively, and our sales of products to the single largest customer accounted for approximately 6.2%, 5.9% and 5.9% of our total revenue, respectively. For the same periods, we also sold to hospitals and Chinese medicine clinics under the administration of the Hong Kong Hospital Authority. Even though these hospitals and Chinese medicine clinics are under the administration of the Hong Kong Hospital Authority, they are operated independently of each other and we conducted sales to each of such hospitals and Chinese medicine clinics on an individual basis. Therefore, each hospital and Chinese medicine clinic is considered to be a separate customer. For the years ended 31 December 2012, 2013 and 2014, aggregate sales to such hospitals and Chinese medicine clinics accounted for 6.6%, 6.3% and 6.4% of our total revenue, respectively. As at the Latest Practicable Date, our five largest customers, which are Independent Third Parties, for the Track Record Period have maintained a working relationship with us for six to nine years. During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute with our customers.

None of our Directors or their associates or any person who to the knowledge of the Directors owned 5% or more of our issued share capital as at the Latest Practicable Date had any interest in any of our five largest customers for the Track Record Period.

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MARKETING AND PROMOTION

As at 31 December 2014, our marketing and sales department comprised 117 personnel, who are responsible for our sale and marketing activities and provision of after-sales services to our customers. Our sales representatives are primarily responsible for promoting our products to our target customers. We provide our marketing and sales team with regular trainings in order to continuously improve and upgrade their product knowledge and marketing skills. Our marketing and sales team is divided into the CCMG product division and the Chinese healthcare product division. Due to the different nature of our CCMG products and Chinese healthcare products, our marketing and sales team employs different marketing strategies to promote these two lines of products.

CCMG Products

The principal target customers of our CCMG products consist primarily of hospitals, Chinese medicine clinics, medical institutions and private Chinese medicine practitioners. As we believe the market competition in this segment is mainly on the quality, safety, reliability and curative efficacy of CCMG products, we primarily focus on direct marketing by communicating the quality and curative efficacy of our products to Chinese medical practitioners, the improved operational efficiency of the clinic management to hospitals and non-profit organisations, and the reliability, safety and added convenience to patients, thereby establishing the strong recognition of our brand Nong's® (農本方)® in the minds of both our customers and end users. This approach of sharing successful patients' experience and testimonials is effective in establishing a loyal customer base and also helps to minimise the costs of mass advertising. We have maintained stringent control during production over the quality of our CCMG products, placing particular emphasis on their quality consistency and curative functions. Please refer to the subsection headed “— Quality Control” in this section for further details. In addition to regular visits to our existing customers, our sales representatives organise informational seminars, academic training sessions and presentations for Chinese medical professionals to enhance their knowledge or the benefits of our CCMG products and CMCMS, and to promote and facilitate their usage of our products. Our marketing and sales team also prepares and distributes promotional materials on our CCMG products and CMCMS, which are specifically tailored to our target customer groups.

Chinese Healthcare Products

We believe our Chinese healthcare products more closely resemble general consumer products and the market competition is primarily based on brand awareness among end consumers. Therefore, mass advertising such as TV, print advertisements (including newspaper and magazines), radio, online platforms (such as websites, WeChat, Facebook and YouTube, etc.) and direct marketing channels are used to promote our brand awareness and the benefits of our Chinese healthcare products. We also organise product presentations and promotional campaigns for various associations of paramedical and medical professionals. We rely heavily on direct sales and word-of-mouth referrals by Chinese medicine practitioners, western practitioners, and influential community leaders to promote our premium Chinese healthcare products. We sponsored events of professional medical associations and other social events to increase the brand awareness of our products among paramedical professionals and targeted consumer groups.

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In April 2013, we established a direct consumer loyalty membership scheme targeting end consumers, our PuraPharm Club, through which members are able to purchase our Chinese healthcare products directly from us at a discount. As at the Latest Practicable Date, there were approximately 1,900 members in our consumer loyalty membership scheme. We also provide quality after-sales services to members. As part of our marketing and promotional strategies, we also provide a variety of member benefits, such as birthday special offer, new product trial programme and product delivery services. In addition, we regularly send e-newsletters to end consumers and update them with the latest healthcare tips.

RESEARCH AND PRODUCT DEVELOPMENT

Overview

We believe that our focus on research and development is critical to the sustainable development of our business and future expansion. Our research and development efforts have been focused on the standardisation of CCMG products and the development of new Chinese medicines and Chinese healthcare products. These efforts have enabled us to improve the curative efficacy, quality, stability and reliability of our CCMG products, to develop new healthcare products, and to facilitate the modernisation of Chinese medicine.

- *Standardisation of CCMG products.* We have been committed to the establishment of quality standards for CCMG products through our cooperation with the CFDA, the Committee for the Chinese Pharmacopoeia and major universities in Hong Kong, the PRC and overseas countries. We also currently collaborate with the USP in the standardisation of CCMG products. Based on our accumulated knowledge and expertise in the standardisation of CCMG products since 2004, we have established the quality standards for over 685 CCMG products which are commonly prescribed by Chinese medicine practitioners. In addition, we have obtained registrations for over 300 of our CCMG products from the Chinese Medicines Board in Hong Kong. In addition, we are presently collaborating with the University of Graz in Austria to compile quality standards for CCMG products, which are expected to be applied in pharmacy stores in Europe.
- *In-licensing of potential drug candidates from other research institutes.* We are devoted to the study of the correlation between Chinese medicines (including raw Chinese herbs, traditional Chinese herbal medicines (中藥飲片), Chinese medicinal decoctions and CCMG single and combo formulae products) and their respective intended treatments. We work with external research institutes to in-license potential drug candidates to expand or to enhance our product portfolio without the risks and costs involved in the substantial research and development programme. We focus our resources on the later stage of product development and commercialisation once the potential of an active ingredient has been identified. Examples are our development of Oncozac® (安固生)®, where the basic science research was licensed from The Chinese University of Hong Kong, and we undertook the formulation and production of the final end-product. We also categorise and select drug candidates which could potentially have curative effects on intended treatments, and our in-house scientists will further screen the potential drug candidates for their efficacy before submitting to our scientific advisory committee for their consideration and advice. Based

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on our accumulated knowledge in Chinese medicines and our research capability, we are able to evaluate promising drug candidates provided to us by external research institutes without investing in costly research and development infrastructure. We are using such model particularly in the development of new Chinese medicine products relating to the treatment of gastrointestinal, cardiovascular and immune diseases.

In-house Research and Development Capability and Testing Facilities

We have established a strong research and development team. As at 31 December 2014, we had a total of 33 research and development personnel, of which 15 held advanced degrees at the doctorate and/or master levels in pharmaceutical or related disciplines, and most of which have more than five years of experience in pharmaceutical and Chinese medicine research. Our research and development team is led by our group research and development director who works under the guidelines set forth by our scientific advisory committee.

Our scientific advisory committee is responsible for examining our management's direction and investment in research and development and establishing the relevant research and development guidelines and policies. Our scientific advisory committee consists of seven members who are all reputable professors from renowned universities in Hong Kong, the PRC, United Kingdom, Belgium and Austria, and have extensive experience in the research fields of Chinese and western medicines, pharmacology, neurobiology, pharmacy, chemistry and other basic sciences. Please also refer to the subsection headed "Directors and Senior Management — Board Committees" in this prospectus for further details.

Based on their understanding of the TCM industry and accumulated knowledge on our active and potential projects, they advise the Board on the research areas of Chinese medicine and other medical sciences which is necessary for our strategic research and development plan. The scientific advisory committee meets regularly to discuss with researchers about projects and to advise the board of their progress.

Our testing laboratory is supplied with advanced testing and analytical equipment, such as thin layer chromatography (TLC) for identification of key ingredients in Chinese medicines, high performance liquid chromatography (HPLC) for quantitative analysis of active ingredients in medicines, gas chromatography (GC), Ultra Performance Liquid Chromatography (UPLC) and inductively coupled plasma mass spectrometry (ICPMS) for heavy metal residues testing. In 2009, our testing laboratory was certified by the CNAS, which is a member of the International Laboratory Accreditation Corporation. Such accreditation is equivalent to the ISO 17025 standards. This guarantees that the competence, practice and specifications of our laboratory meets internationally recognised standards. Our testing reports are accepted in over 70 countries across the world. In addition, our research facilities were awarded by the Department of Science and Technology of Guangxi Zhuang Autonomous Region as the "Guangxi Modernised CCMG Product Engineering Technology Research Centre (廣西現代中藥配方顆粒工程技術研究中心)".

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Accreditation with USP

The USP is a scientific non-profit organisation in the United States setting standards for medicines, health products, food ingredients and dietary supplements which are manufactured, distributed and consumed worldwide. The USP drug standards are enforceable in the United States by the U.S. Food and Drug Administration. These standards are also widely recognised as one of the most stringent quality standards in the world and are adopted in more than 140 countries around the world.

We are the only CFDA-licensed CCMG product manufacturer who has received USP verification of its CCMG products according to the U.S. Pharmacopeial Convention. In particular, our ONCO-Z coriolus versicolor extract, the sole active ingredient in one of our Chinese healthcare products, Oncozac® (安固生)®, was verified by USP as dietary supplement ingredient and became the world's first TCM ingredient verified by the USP. Such accreditation is subject to renewal every three years. The USP further verified and recognised our quality standards for concentrated granules of Radix Astragali (黄芪) and Fructus Crataegi (山楂) in 2014. We have also published our own research results as the recognised quality standards for our Radix Astragali (黄芪) concentrated granule.

New Product Development

We aim to develop new Chinese medicine products to address major medical needs. We have adopted a market-driven approach to initiate research and development projects. As there are increasingly more diseases or health conditions which cannot be treated by western medicine or by western medicine alone, Chinese medicine is gaining popularity in the treatment of many health conditions. We undertake detailed market analyses on the latest development of how certain diseases may be treated with relevant categories of Chinese medicine products, before we decide to invest in a research project. In addition, we consult our marketing and sales team about the industry trend and the market supply and demand for the relevant categories of Chinese medicine products. We also conduct research and consumer surveys on consumer behaviours and collect consumer feedback. To minimise the potential risks, we prefer in-license projects from third parties research institutes that have already proven scientific basis and high probabilities of commercial application. Such approach is more cost-effective than our funding of a research project in its initial development stages.

We intend to establish a Chinese medicine research and formulation development centre in Hong Kong in 2015. Please refer to the subsection headed “— Our Business Strategies — Commercialise our Pipeline Products, Diversify our Product Offerings and Develop New Product Formulations” in this section for further discussion.

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Commercialised Products

We have successfully commercialised our research results for the following major Chinese healthcare products:

- *Oncozac*[®] (安固生)[®]. We jointly developed the product with the School of Pharmacy of The Chinese University of Hong Kong in 2002. ONCO-Z coriolus versicolor extract, the sole ingredient of one of our Chinese healthcare products, *Oncozac*[®] (安固生)[®], was verified by USP as dietary supplement ingredient and became the world's first TCM ingredient verified by the USP. The Chinese University of Hong Kong has obtained a patent registration in respect of the unique extraction method of ONCO-Z[®] in the United States, the United Kingdom and the PRC. Pursuant to a license agreement in November 2002 with The Chinese University of Hong Kong, we have the exclusive rights to use the relevant patent for 20 years.
- *PuraGold*[®] (金靈芝)[®]. We jointly developed the product with the Institute for Advancement of Chinese Medicine of the Hong Kong Baptist University in 2000. We have further used the proprietary DNA fingerprinting technology developed by the Hong Kong Baptist University to standardise the authenticity and quality of wild Lingzhi (靈芝). We are currently conducting a clinical trial to assess the curative efficacy of *PuraGold*[®] (金靈芝)[®] on patients who are in an early stage of Parkinson's disease.

Products under Development

We have worked with universities and research institutes to in-license promising drug candidates to develop new Chinese medicinal products. The following table sets out our major pipeline products and their respective development stages as at 31 December 2014:

<u>Product category</u>	<u>Therapeutic area</u>	<u>Product</u>	<u>Intended treatment</u>	<u>Status</u>	<u>Target clinical trial commencement year</u>
PCM	Cardiovascular system	Puerarin Phospholipids Complex Capsule (葛根素磷脂複合物膠囊)	Cardiovascular diseases, such as myocardial ischemia (心肌缺血) and angina (心絞痛)	Clinical trial license granted by the CFDA	2015
PCM	Digestive system	Ren Shu Chang Le Granule (仁術腸樂顆粒)	Irritable bowel syndrome (腸易激綜合症)	Clinical trial license granted by the CFDA	2015

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Other Collaborations with External Research Partners

We have collaborated with leading research institutions, universities, hospitals and medical institutions around the world in Chinese medicine research and new product development, such as University of Graz, University of Western Sydney, Shanghai University of Traditional Chinese Medicine (上海中醫藥大學) and Research Institute of Tsinghua University in Shenzhen (深圳清華大學研究院). As at the Latest Practicable Date, none of the fees we paid to our external research partners in any research project exceeded HK\$1.0 million. According to the relevant agreements with external research partners, we generally have ownership rights in the intellectual properties developed in these research projects. In selecting research partners, we take into consideration a series of factors, including Chinese medicine research capability, reputation in Chinese medicine research, influence on relevant authorities, and whether they play a leading role in the fields of authentication of raw Chinese herbs and/or in the establishment of quality standards. In addition, we also seek to acquire technologies and/or research results from external parties and commercialise these technologies and/or research results through launching of new products or enhancement of existing manufacturing techniques.

Government-Sponsored Projects

We have also undertaken a number of pharmaceutical research and development programmes focusing on new product development and improvement of research facilities in relation to certain specific projects which are sponsored by governments. For the years ended 31 December 2012, 2013 and 2014, we received government grants and recognised the amount of HK\$4.6 million, HK\$4.3 million and HK\$3.7 million as other income in our consolidated statements of profit or loss, respectively. Please refer to the subsection headed “Financial Information — Discussion of Selected Items from the Consolidated Statements of Profit or Loss — Other Income and Gains” in this prospectus for further details.

For the years ended 31 December 2012, 2013 and 2014, our research and development costs were HK\$8.3 million, HK\$16.1 million and HK\$16.1 million, represented 2.9%, 4.7% and 4.4% of our total revenue for the same periods, respectively. Please refer to the subsection headed “Financial Information — Discussion of Selected Items from the Consolidated Statements of Profit or Loss — Administrative Expenses” in this prospectus for further details relating to our research and development costs.

PRODUCTION

Manufacturing Facilities

We own and operate our Chinese medicine manufacturing facilities in Nanning Hi-tech Development Zone, Nanning, Guangxi Zhuang Autonomous Region, which occupies the land parcel of approximately 17,241 sq.m. with a total gross floor area of approximately 7,760 square metres. We have designed our own manufacturing facilities and adopted advanced technologies and testing techniques in Chinese medicine production. Our manufacturing facilities are highly automated and controlled by a centralised computer system. Our production equipment includes, among others,

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high-efficiency dynamic fluid extractors, concentrators, large spray dryers, as well as equipment for freeze drying, vacuum drying and fluid bed drying of Chinese herbal extracts. We operate a clean room for our granule production which meets the relevant GMP standards.

GMP Accreditation

All of our production lines and our manufacturing facilities are strictly in compliance with the GMP standards of the PRC, Australia and the USP, as well as our internal standard operating procedures.

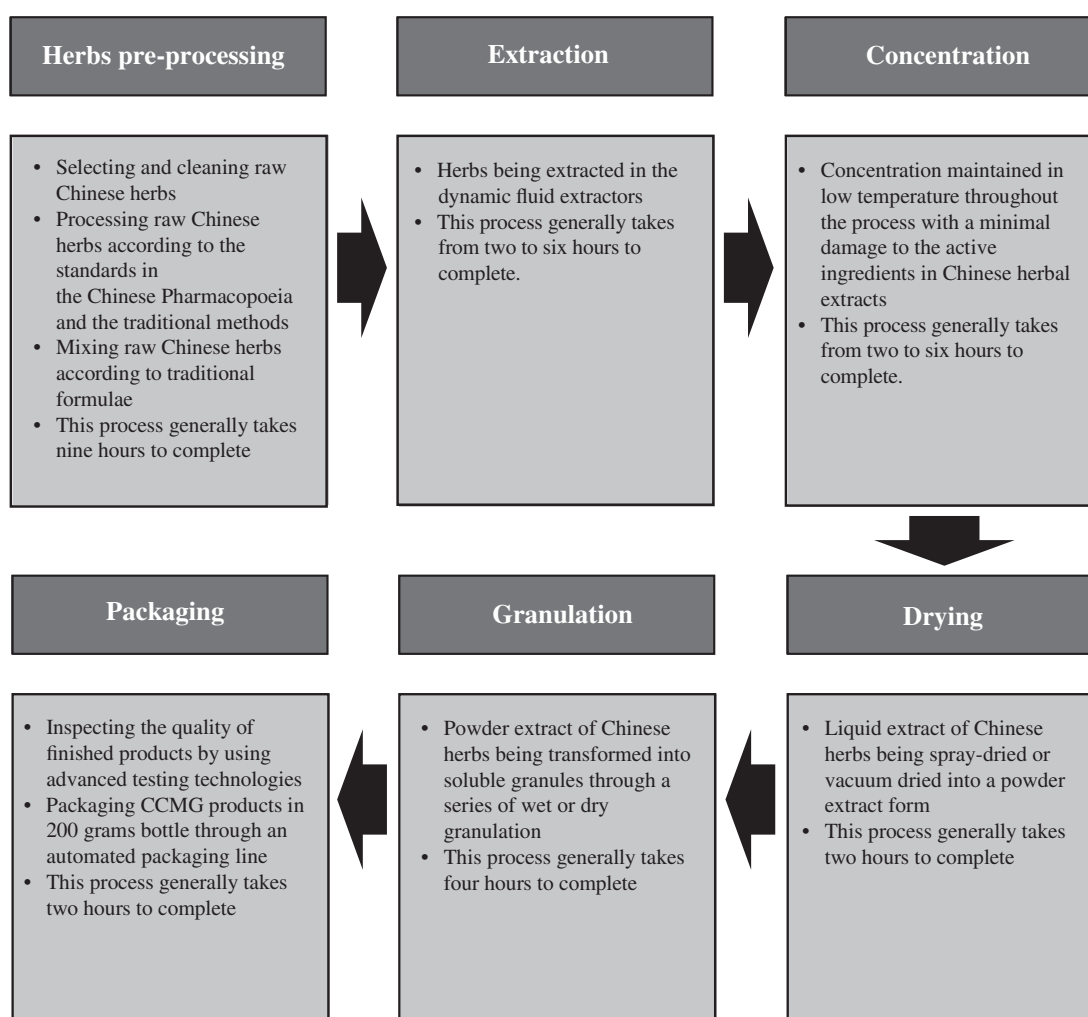
- *PRC GMP.* The PRC GMP are regulations and guidelines issued from time to time pursuant to the Law on the Administration of Pharmaceuticals to ensure that pharmaceutical products are manufactured consistently in accordance with quality standards for their intended uses. Our manufacturing facilities have been GMP certified by the CFDA since 2005. The GMP certification is subject to renewal every five years. The CFDA renewed the GMP certification in respect of our manufacturing facilities in February 2015.
- *TGA.* Our manufacturing facilities have been certified by the TGA since October 2010. The TGA is Australia's regulatory authority for therapeutic products. It carries out a range of assessment and monitoring activities to ensure therapeutic goods in Australia are of an acceptable standard. The TGA standards regulate all aspects of the manufacturing process from control of procurement and design of manufacturing facilities to production procedures and quality inspection of the finished products, and are considered by the industry as one of the world's most stringent manufacturing standards. In addition, the TGA standards are generally accepted by 46 participating authorities around the world. In general, the TGA certificate of GMP compliance is subject to renewal every three years and we obtained our latest renewal in February 2015. The effective periods of other TGA certificates vary depending on the frequency of intended re-inspection by the TGA, the risk category of relevant products and the compliance rating determined upon completion of the inspection.
- *USP.* Our manufacturing facilities have been certified by the USP according to the current ICH Q7 GMP guidelines. The GMP audit is an integral part of the USP verification and certification process. USP auditors perform on-site audit at least once every three years. Products must meet the stringent USP convention standards in order to be verified and recognised by the USP. The USP GMP certification is subject to renewal every three years and we obtained our latest renewal in February 2014.

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Production Process

Overview

We manufacture CCMG products by using the modern extraction and concentration technologies to replicate the traditional method of preparing decoction in our production process. We also manufacture Chinese herbal extracts as semi-finished ingredients from the same production process, transport them to Hong Kong and further process them into our finished Chinese healthcare products through various outsourced manufacturers in Hong Kong. The following flow chart summarises the key steps of the production process for our CCMG products and Chinese herbal extracts for our Chinese healthcare products:



Our entire production process (which includes the cleansing process (淨制) and cutting process (切制)) falls within our production scope of the pharmaceutical manufacturing permit and does not involve methods prohibited in the Catalogue 2015. We purchased those TCM decoction pieces, which are produced by using the methods prohibited in the Catalogue 2015, such as steaming, stir-frying, moxibustion, and calcination, from qualified manufacturers.

Note: The time for each key production process is estimated for the manufacturing of 560 kilograms of CCMG products.

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Utilisation

We manufacture our CCMG products and Chinese herbal extracts for our Chinese healthcare products in our production base in Nanning, Guangxi Zhuang Autonomous Region. The following table sets forth the designed capacity, actual production volume and utilisation rate of our production line in our Nanning production base for the periods indicated:

Production line	Year ended 31 December								
	2012			2013			2014		
	Designed capacity ⁽¹⁾	Actual production volume	Utilisation rate ⁽²⁾	Designed capacity ⁽¹⁾	Actual production volume	Utilisation rate ⁽²⁾	Designed capacity ⁽¹⁾	Actual production volume	Utilisation rate ⁽²⁾
	(tonnes/year)	(tonnes/year)	(%)	(tonnes/year)	(tonnes/year)	(%)	(tonnes/year)	(tonnes/year)	(%)
CCMG products and Chinese herbal extracts	969	455	47.0	969	502	51.8	969	696	71.8

Notes:

- (1) Designed capacity is calculated based on the assumption that the production is operated at a rate of 165 kilograms products manufactured per hour for approximately 16 hours per day and 350 days per year with 15 days off per year for maintenance.
- (2) Utilisation rate is derived from dividing our actual production volume for each period by designed capacity of the same period.

We maintain and service our manufacturing facilities on a regular basis to ensure efficient production without any unexpected interruption. We replace or upgrade production equipment and machinery on a preventive basis or after we use them for a certain period (which depends on the specific type of equipment and machinery) according to our relevant internal policy and production plan. In order to increase our production capacity catering for our growing sales demand, we maintain a schedule of investment in new machineries and advanced production facilities. Our internal experts and external consultants conduct periodic reviews of our production capacity and efficiency. We maintain a policy to review and upgrade our manufacturing capabilities where necessary in order to capitalise on the anticipated growth of the Hong Kong and PRC TCM industries and increase our market shares.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any significant production interruption due to equipment failure or breakdown, raw material shortages, power interruptions, fire or labour disputes.

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Future Expansion and Upgrade Plan

We plan to increase our production capacity to meet expected increasing product sales for the next few years. We will construct new manufacturing facilities as well as purchase advanced production equipment and install additional machineries in different phases of our existing production line. We adopt a phase-by-phase approach in our expansion and upgrade plan, primarily taking into consideration our projected product sales, and continually re-evaluating our capital expenditure and the completion time of each phase based on customer demand for our products, the expansion of our sales and distribution network and technological advancements in relation to our production equipment. We expect the first phase of our manufacturing facility upgrade to commence in the second half of 2015 and to be completed within the next 12 months, which will increase our annual production capacity to 1,500 tons of CCMG products. We plan to complete the second phase of our manufacturing facility upgrade by the end of 2017, which will increase our annual production capacity to 2,000 tons of CCMG products.

Although the utilization rate of our production line in our Nanning production base was only 71.8% in 2014, we believe the following factors substantiate the planned increase in our production capacity:

- *Utilization rate.* Due to our extensive product portfolio consisting of over 600 CCMG products and the required down time for cleaning of production equipment when we make production shifts between different products, as well as for routine maintenance, we have set a utilization rate from 70 to 75% to ensure the optimal performance of our manufacturing facilities.
- *Required time for increasing production capacity.* We expect that it will take at least three years to increase our production capacity in the two phases outlined above to meet expected increasing product sales as we implement our business strategies in Hong Kong and the PRC (disclosed in the subsection headed “— Our Business Strategies” in this section).

The following table sets forth a breakdown of estimated capital expenditure for the expansion and upgrading of our manufacturing facilities.

Purpose	Estimated capital expenditure
	<i>HK\$'000</i>
Land acquisition costs ⁽¹⁾	24,401
Construction of new manufacturing facilities	56,224
Purchases of advanced production equipment and machineries	40,657
Total	<u>121,282</u>

Note:

(1) We paid land acquisition costs by using cash generated from our operations.

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We expect to fund the capital expenditure from cash generated from our operations, bank borrowings through new banking facilities and the net proceeds from the Global Offering. Please also refer to the section headed “Future Plans and Use of Proceeds” for further details on our use of proceeds from the Global Offering in connection with the relevant capital expenditure projects.

We estimate the additional amount of annual depreciation expenses for the new manufacturing facilities to be approximately HK\$1.4 million. The depreciation period will commence upon the commencement of operation of the new manufacturing facilities.

Production Plan

Our production plan is devised in accordance with an annual forecast and quarterly rolling forecasts of market demand by our marketing and sales department based on historical sales records and future sales plans of our existing customer. We use our enterprise resource planning (ERP) system to prepare the monthly production plan and raw materials purchase plan based on our market demand forecast and the sales plans of forthcoming seasons taking into account our production capability. The actual production plan is adjusted in accordance with actual demand and inventory levels.

Warehousing and Inventory Management

Our inventories mainly comprises raw Chinese herbs, packaging materials, work-in-progress and finished goods. We own and lease a number of warehousing facilities for our production. The warehouse we own is within our manufacturing facilities in Nanning, Guangxi Zhuang Autonomous Region. The other leased warehouses are in close proximity to our manufacturing facilities. Our warehouses also serve as the distribution centres for our finished products. We manage our inventories based on the planned and actual sales of our products with the objective to reduce our inventories of work-in-progress and finished goods. Our sales department formulates our short-term, middle-term and long-term sales plans and after consulting with other departments, further finalises these plans. In accordance with such plans, our procurement department purchases raw materials. Our production department is required to strictly adhere to the relevant production plan and keep the inventory of work-in-progress product to a minimum. Please refer to the subsection headed “Financial Information — Discussion of Selected Items from the Consolidated Statements of Financial Position — Inventories” in this prospectus for further details on our inventory control measures.

We generally keep an inventory of raw Chinese herbs that ranges from approximately one to three months for our production. We sometimes increase our inventory of raw Chinese herbs to meet our production plan and reduce our procurement costs. In addition, we keep the higher levels of inventory for certain raw Chinese herbs (such as Lingzhi (靈芝)) which are harder to procure.

Proper storage of raw Chinese herbs is one of the key factors in maintaining the quality of our products. As it is easy for raw Chinese herbs to suffer from mildew, infestation and colour change if they are improperly stored, we have established stringent warehousing requirements. All our warehouses are GMP certified by the CFDA and the TGA. We require the strict temperature and humidity control over the indoor environment of our warehousing facilities and treat different raw Chinese herbs separately according to their particular nature. For certain raw Chinese herbs that are endangered species, we store them separately with additional security.

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We believe we have established a reliable internal control system to ensure that inventory records are properly kept and updated to reflect the actual movement of inventories. We conduct stock counts every six months and spot check on a monthly basis to maintain a proper inventory level of finished products. Our finished CCMG products and Chinese healthcare products generally have a shelf life of approximately three years.

Outsourced Production

We outsource certain parts of our CCMG product production process to third party manufacturers in the PRC. We also outsource the encapsulation and packaging of our Chinese healthcare products to third party manufacturers in Hong Kong. We expect to continue these outsourcing arrangements after the Global Offering.

We have implemented strict quality control procedures to ensure the quality, safety and reliability of our products supplied by outsourced contractors. We select our outsourced contractors based on their production capabilities in compliance with the GMP production standards of the CFDA and the TGA, obtaining of required licenses and permits, and their quality control measures. The costs of their production will also be considered. We generally require a trial production period to test whether our selected outsourced contractors have the capabilities to manufacture products which meet our stringent quality standards. These outsourced contractors inspect the condition of our semi-finished CCMG intermediates or Chinese herbal extracts to ensure the product quality and safety before their processing in strict compliance with relevant GMP and TGA standards. They also inspect each product batch upon completion of their processing and packaging. Upon delivery of each product batch by outsourced contractors, our in-house CNAS-accredited testing laboratory will conduct further testing of the processed CCMG intermediates based on their appearance, colour, taste and content of active ingredients, and we also send samples of finished Chinese healthcare products to an independent third party laboratory for testing. We accept only product batches which meet our stringent standards. As at the Latest Practicable Date, all our outsourced contractors are Independent Third Parties, and we have established the business relationships with them from five to 17 years.

For the years ended 31 December 2012, 2013 and 2014, the total subcontracting processing charges in relation to our outsourced production, in aggregate, accounted for approximately 4.5%, 3.9% and 3.4% of our total cost of product sales for the same periods, respectively. During the Track Record Period, we did not experience any material issue or dispute in relation to product quality or product delivery schedule with any of our outsourced contractors.

Outsourced Production for CCMG Products

We outsource the spray-drying process of our semi-finished intermediates for CCMG products to two third party manufacturers in the PRC. The semi-finished intermediates are then transported back to our Nanning production base in order for us to complete the manufacturing process for our CCMG products. These two outsourced manufacturers both have obtained PRC GMP certifications and have employed advanced manufacturing and testing techniques in production. Our outsourced contractors generally grant us a credit period of 14 days. Such outsource production has been approved by

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Provincial FDA. We believe it is a good manufacture practice to outsource part of our production process to third party manufacturers to prevent over-stretching our own production equipment and make preparation to increase our production capacity due to unexpected needs from customers.

The table below sets out a summary of the principal terms of our outsourcing agreements with these two manufacturers:

Principal terms	Summary
Term of agreements	Generally a term of one year.
Manufacturing period	Ranging from one week to two months depending on the product type after receipt of raw Chinese herbs and other required materials.
Ownership rights in products	We retain exclusive ownership rights in our products.
Raw material procurement policy	Other than packaging materials, we provide all the raw materials for CCMG product production and deliver them to outsourced contractors under the supervision of our quality control team.
Quality requirements	We have established detailed policies for outsourcing management and quality control of the finished products. We also despatch a team to each of the outsourcing facility to record and supervise their production. We accept the products from our outsourced contractors only after we have tested and confirmed that these products meet our quality standards.
Basis of determining relevant fees	Fees are generally calculated based on production process and weight of output products, in line with industry norm.
Return of defective products (yes/no)	We are generally allowed to return any product that fails to meet our quality standards.
Confidentiality undertaking as to contractual terms (yes/no)	Yes
Non-competition undertaking	Contractors are prohibited from manufacturing our products for themselves or any other company.

Outsourced Production for Chinese Healthcare Products

We transport Chinese herbal extracts from our Nanning facilities to Hong Kong and outsource the encapsulation and packaging process to third party manufacturers before we sell finished Chinese healthcare products to customers. As these third party manufacturers are engaged in large scale manufacturing and packaging operations in Hong Kong, we believe it is more cost effective to outsource this part of the production process to them, rather than establish our own manufacturing facilities and purchasing equipment machinery in Hong Kong just to carry out the encapsulation and packaging process. Our outsourced contractors generally grant us a credit period of three months.

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We have implemented a series of measures to prevent the contamination or spoilage of Chinese herbal extracts during transportation. We first pack Chinese herbal extracts in sealed double-layer aluminium foil packages in a production environment, which is free of contamination and dust in accordance with our internal standards and requirements. The packaging materials protect the Chinese herbal extracts from dampness, spoilage, sunlight, chemical and other contaminating substances. We then put these packages into printed cardboard boxes to protect the Chinese herbal extracts during transportation. Our quality control team inspects the specifications of aluminium foil packages and printed cardboard boxes before packaging, as well as the safety and hygienic conditions of delivery trucks before loading. During the transportation to Hong Kong, we track the movement and latest status of delivery trucks on a daily basis. Upon arrival in Hong Kong, our quality control team inspects the condition of each product batch and disposes of any damaged package.

The table below sets out a summary of the principal terms of our outsourcing agreements with Hong Kong manufacturers:

Principal terms	Summary
Term of agreements	Generally a term of five years which is subject to renewal.
Manufacturing period	Ranging from two to six weeks depending on the product type after receipt of our bulk Chinese herbal extracts and other raw materials.
Termination	Each party can terminate the agreements by serving nine months' advance written notice to the other party.
Ownership rights in products	We have the sole and exclusive rights in products and relevant design, formulae and trademarks for production.
Contractors' responsibilities	Outsourced contractors may sub-contract out the manufacture, packaging and repackaging of Chinese healthcare products.
Raw materials procurement policy	We provide some of the outsourced contractors all the required materials for capsule formulation, while other contractors procure packaging materials by themselves.
Quality requirements	Outsourced contractors are required to carry out all necessary quality control measures in order to meet our product quality standards and relevant production requirements.
Credit period	Outsourced contractors normally give us a credit period of ranging from 30 to 90 days.
Basis of determining relevant fees	Fees are calculated based on the type of formulation and packaging, and the number of output products, in line with industry norm.
Return of defective products (yes/no)	We are generally allowed to return any product that fails to meet our quality standards.
Confidentiality as to contractual terms (yes/no)	Yes
Non-competition undertaking	Contractors are prohibited from manufacturing our products for themselves or any other company.

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PROCUREMENT AND SUPPLIERS

Procurement of Raw Chinese Herbs

Raw Chinese herbs are the primary raw materials of our production. We use over 600 types of raw Chinese herbs in the manufacture of our CCMG products and Chinese healthcare products. For the years ended 31 December 2012, 2013 and 2014, our total procurement costs of raw Chinese herbs were approximately HK\$59.7 million, HK\$71.5 million and HK\$82.6 million, respectively, representing approximately 57.8%, 58.1% and 61.5% of our total cost of sales for the same periods.

The prices and availability of raw Chinese herbs may vary from period to period based on factors such as customer demand, weather changes and total harvest. As such, we have adopted the following measures to minimise our exposure to the price fluctuations of raw Chinese herbs and to ensure their stable supply:

- *Price tendering.* We conduct a formal price tendering process for all our raw material procurement among our suppliers once or twice a month depending on our monthly production need. We invite tenders based on the types and quality of raw Chinese herbs which our suppliers can provide and their production bases. For the price tendering process of each raw Chinese herb, we generally invite up to seven suppliers to provide price quotations. For certain raw Chinese herbs which are not readily available from those suppliers invited for price tendering, we only select the supplier which have a broad sourcing base and have established a good record of supplying high quality raw Chinese herbs to us. When our procurement amount exceeds RMB100,000, we request each tendering supplier to provide samples of raw Chinese herbs and perform quality check on such samples. Among the suppliers whose raw Chinese herbs meet our quality standards, we select the supplier who offers the lowest price quotation.
- *Procurement from main production bases.* To ensure the general quality of the herbs, we purchase raw Chinese herbs primarily from major supply bases in the PRC.
- *Strategic inventory.* We have built up a strategic inventory of raw Chinese herbs since 2014. We are planning to build a customised warehouse specifically designed for the storage of raw Chinese herbs for a long period of time without compromising their quality and curative efficacy.

For the sensitivity analysis and breakeven analysis of the cost of raw materials, please refer to the subsection headed “Financial Information — Factors Affecting Our Results of Operations — Cost of Raw Materials” in this prospectus for further discussion.

We expect that, subject to general market conditions, we will be able to pass on part or all of any price increases in our raw materials to our customers.

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Suppliers of Raw Chinese Herbs

We source raw Chinese herbs for our production from various third party suppliers in the PRC. As at 31 December 2012, 2013 and 2014, we had a total of approximately 34, 37 and 42 suppliers of raw Chinese herbs for our production, respectively.

We select suppliers based on the quality, production bases and prices of their raw Chinese herbs, as well as their relevant experience and reputation in the TCM industry. In selecting our suppliers, our quality control department conducts sample tests on raw Chinese herbs from suppliers to ensure that their raw Chinese herbs meet our stringent quality standards and our technological requirements for production. We also require our suppliers to provide us with documents showing that they have obtained required licenses and permits for their businesses, have established their own production bases, possess relevant operational experience, and have achieved certain levels of operation scales.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant delays or constraints in production due to any supply disruption of raw materials. In order to secure a stable supply of raw materials and reduce our risk of supply disruption, we have strategically selected our raw material suppliers and sourced our raw materials from a diversified mix of suppliers in different geographic regions in the PRC. We have established stable business relationships from one to ten years with domestic and international suppliers of raw materials. During the Track Record Period, we did not have any material disputes with our suppliers.

We generally place purchase orders with our suppliers with quantities and prices of raw Chinese herbs. We are generally given three month's credit term by our suppliers of raw Chinese herbs. Our suppliers are responsible for arranging the delivery of raw Chinese herbs to our factories at their own costs.

Other Procurements

We have a procurement team consisting of eight members who handle procurement of equipment and other materials for production in our Nanning production base. Our raw material procurement is primarily determined by our production schedule. Our production and sales departments meet regularly to determine the planned production and sales volume. Based on this information, the procurement department formulates a procurement and inventory plan and places orders with suppliers for those raw materials whose inventory levels are expected to fall below our target levels. We manage the inventory levels of our raw materials by monitoring our production activities and incoming sales orders and also taking into consideration changing customer preferences.

Major Suppliers

During the Track Record Period, prices of raw Chinese herbs, production equipment and other materials were generally steady. For the years ended 31 December 2012, 2013 and 2014, purchases from our five largest suppliers which provide raw Chinese herbs accounted in aggregate for approximately 41.7%, 39.5% and 36.7% of our total purchases for the same periods, respectively, and our single largest supplier accounted for approximately 15.3%, 12.0% and 10.0% of our total

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purchases for the same periods, respectively. We have maintained relationships of between two to 10 years with our five largest suppliers. We pay our purchases of raw materials in cash or on credit. Our suppliers generally give us a credit period of three months.

To the best knowledge of our Directors, none of our Directors, supervisors or their associates or any person who owned 5% or more of our issued share capital as at the Latest Practicable Date had any interest in any of our five largest suppliers during the Track Record Period, and all our suppliers during the Track Record Period were Independent Third Parties. Please also refer to the section headed “Connected Transactions” for further discussion on our future purchases of raw Chinese herbs from a controlled entity of Mr. Chan.

QUALITY CONTROL

We consider quality control as one of the key factors contributing to our success. We make every effort to implement stringent quality control measures to ensure the highest standards of product quality.

Our Quality Control System and Operating Procedure

We have established our quality control system and adopted systematic standard operating procedures that are strictly in compliance with the GMP, standards of the PRC, Australia and the USP.

- *Quality control system.* We have a comprehensively designed quality control system which incorporates good manufacturing practice, quality control over production and relevant risk management measures. We regularly monitor the implementation of our quality control system and make full documentation of relevant processes. We have designated a qualified employee to conduct regular internal audits and self-inspections on our quality control system.
- *Personnel, premises and equipment.* We have an adequate number of personnel who possess the required qualifications, education, training and experience to perform the CCMG product production process. Our manufacturing premises and equipment are designed, constructed and maintained in compliance with the GMP standards of the PRC, Australia and the USP.
- *Production.* We have established standard procedures for handling materials and products. Our procedures are designed to ensure that the materials and products are properly received, stored, distributed and delivered in order to prevent any cross-contamination and mix-up of Chinese herbal extracts and Chinese medicine products. Our manufacturing operations follow clearly defined standard production procedures.
- *Complaint.* If there is any quality-related complaint, whether received orally or in writing, we conduct investigations according to our standard operating procedures. In order to provide for all possible contingencies, our system is designed to recall promptly and effectively from the market those products which are known or suspected to be defective.

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Compliance with Industry Standards

The approval and renewal process for the GMP certifications by the CFDA, the TGA and the USP standards generally includes a review of our compliance with the standards after our application with detailed documentations and an on-site audit. In addition, the USP standard certification process requires us to submit a list of quality control documents, manufacturing manual and product samples. After our application documents satisfy the USP standards, the USP then sends certified inspectors to visit our production site and determine whether we have the requisite manufacturing facilities and operational skills to manufacture our products in compliance with its requirements. After the inspectors' on-site audit, we are given a certain period of time to make rectification. The inspectors then visit the sites again for re-evaluation, and the whole process repeats until the inspectors are completely satisfied with our compliance in accordance with the USP standards. The certification processes for the PRC GMP and the TGA standards follow a structure similar to that of USP standards.

Quality Control Measures

We have built a strong quality control team at our manufacturing facilities and in-house CNAS-accredited laboratory in Nanning, Guangxi Zhuang Autonomous Region. As at 31 December 2014, we had a total of 34 quality control staff, most of whom have the required educational background and substantial experience in pharmaceutical industry and manufacturing quality control. Our quality control team monitors every stage of our manufacturing process to ensure that these processes comply with our standard operating procedures and our products meet our stringent quality standards. Every batch of our products must pass our safety tests of heavy metals, toxic elements, pesticide residues and microbial limits before they can be released into the market, thereby guaranteeing its reliability and safety. Our stringent quality control measures include the following:

- *Sourcing of raw materials.* Our procurement team and medical information and resource team in Shenzhen work closely to carefully select suppliers based on quality of raw materials, as well as suppliers' experience, their operation scales and their production bases. When we receive each shipment of raw materials, we sample test raw materials to verify their ingredients and quality in accordance with our stringent standards. We also document and label the production bases of these raw materials to ensure their sources are traceable. Please refer to the subsection headed “ — Procurement and Suppliers” in this section for further discussion.
- *Testing of raw materials, semi-finished and finished products during production.* We implement quality control measures throughout our production process, including quality examination of raw materials before production, quality checks of semi-finished intermediates during production, and final checks of finished products before we release them into the market. Our quality control team adheres to our in-house testing procedures in accordance with the standards set forth in the Chinese Pharmacopoeia, and examines our raw materials, semi-finished intermediates and finished products based on their appearance, colour, taste and content of active ingredients. Only products that fully comply with our stringent standards are sold to our customers. Please also refer to the subsection headed “ — Production — Outsourced Production” in this section for further discussion on our quality control measures for outsourced production.

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- *Hygiene control of premises and production equipment.* We have established and implemented policies and measures for the hygiene control of our premises and equipment. All of the production equipment in direct contact with our raw materials and products are made of high quality stainless steels and each production process in direct contact with our raw materials and products is carried out in our clean production environment.
- *Testing of our products by an third party independent agency.* Aside from the safety testing conducted by our in-house testing laboratory, we also hire an independent third party laboratory to double-check the finished Chinese healthcare products.
- *Using latest testing technologies and equipment to enhance quality control.* We increase our quality control standards by using the latest testing technologies and analytical equipment, such as thin-layer chromatograph (TLC), plant DNA fingerprinting, Fourier transform infrared spectrophotometry (FTIR), inductive coupled plasma mass spectrometry (ICPMS), high performance liquid chromatograph (HPLC) and ultra-high performance liquid chromatography (UPLC). These technologies and equipment help to ensure the authenticity, quality, reliability and safety of our products.
- *Customer feedback.* Our marketing and sales team makes regular visits to hospitals, Chinese medicine clinics, medical institutions and private Chinese medicine practitioners who prescribe and sell our CCMG products. We also provide training and presentations to educate our customers on the proper use of our products and collect their feedback on the quality and curative efficacy of our products. In addition, we have implemented detailed procedures on how to handle customer complaints and provide for the contingency for any adverse reaction of patient to our products.

COMPETITION

There is a long history of the Chinese medicine product markets in Hong Kong and the PRC as people have used Chinese medicine as alternative remedy to western medicine in the treatment of various health conditions or problems, or illnesses. The total retail sales value of the Hong Kong Chinese medicine product market increased from HK\$9.9 billion in 2010 to HK\$14.9 billion in 2014, representing a CAGR of 10.8% for such period from 2010 to 2014, according to the Euromonitor Report. Moreover, the total retail sales value of the PRC Chinese medicine product market increased from RMB603.8 billion in 2010 to RMB1,323.8 billion in 2014, representing a CAGR of 21.7% for such period from 2010 to 2014, according to the Euromonitor Report. As more people have increasingly recognised the benefits of Chinese medicine products to treat chronic diseases and prevent viral symptoms, combined with the opportunities in the healthcare industry, the Chinese medicine product markets in Hong Kong and the PRC are expected to continue to grow.

Each of the Chinese medicine product markets in Hong Kong and the PRC consists of the three segments: (i) traditional Chinese herbal medicine (中藥飲片) market segment; (ii) Chinese healthcare product market segment; and (iii) proprietary Chinese medicine market segment. As CCMG products have gradually become substitutes for traditional Chinese herbal medicines due to the government

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initiatives to promote the use of CCMG products and increasing consumer awareness of the benefits of such products, the market share of CCMG product in the traditional Chinese herbal medicine market segment has increased accordingly.

We operate primarily in the CCMG product markets in Hong Kong and the PRC. According to the Euromonitor Report, the Hong Kong CCMG product market is relatively concentrated and the top five CCMG product manufacturers had a 95.0% market share in aggregate in terms of prescription value in 2014, primarily due to high entry barriers to the market, including registration requirements of CCMG combo formulae products, requirement of product insurance and operation of an extensive sales network. We are the top player dominating the Hong Kong CCMG product market with a 70% market share, significantly higher than the second market player. We are the market leader in the research and development, manufacture and sale of a wide range of CCMG single formulae and combo formulae products in Hong Kong. Our Nong's® (農本方)® brand is widely recognised and trusted in Hong Kong for its premium product quality, reliability and safety. We are also the only Chinese medicine manufacturer whose products are verified and recognised by the USP.

Moreover, the PRC CCMG product market is highly concentrated, according to the Euromonitor Report. As at 31 December 2014, there were only five CFDA-licensed CCMG product manufacturers in this market. The top three players dominate the PRC CCMG product market with a 87% market share in aggregate in terms of prescription value in 2014, primarily due to high entry barriers to the market, including strict supply chain requirements, high manufacturing cost and difficulty in introduction of new brands in the existing hospital sales channel. We had a 5% market share in terms of prescription value in 2014 in the PRC CCMG product market. We offer the most comprehensive range of CCMG products among the five CFDA-licensed CCMG product manufacturers. In addition, we are the only CFDA-licensed CCMG product manufacturer who receives USP verification of certain CCMG products, according to the US Pharmacopeial Convention. Moreover, we are the only CFDA-licensed CCMG product manufacturer whose testing laboratory is certified by CNAS in accordance with relevant ISO 17025 standards according to the CNAS.

We also sell a broad range of Chinese healthcare products, such as PuraGold® (金靈芝)® and Oncozac® (安固生)®, targeted at end-consumers. According to the Euromonitor Report, the Chinese healthcare product markets in Hong Kong and the PRC are highly fragmented with thousands of manufacturers in the market, due to a relatively low entry barrier and a wide range of product offerings. For further details of the competitive landscape in each of the market segments where we operate, please see the section headed “Industry Overview” in this prospectus.

PERMITS, LICENSES AND APPROVALS

Except as disclosed in the subsection headed “— Regulatory Compliance — Systemic Non-compliance Incidents” in this section, during the Track Record Period and up to the Latest Practicable Date, (i) we had obtained all required licenses, approvals and permits from the relevant government authorities that are material for our business operations in Hong Kong and the PRC, and such licenses, approvals and permits remained in full effect; (ii) no circumstances existed that would render the revocation or cancellation of any required license, approval or permit, and we did not

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experience any material difficulty in obtaining or renewing any required license, approval or permit; and (iii) we were not admonished or penalised by the relevant government authorities for any material non-compliance in connection with our business operation.

Our Directors are of the view that based on the legal opinions from our legal advisers and taking into account our ongoing compliance with the relevant regulatory requirements, there is no legal impediment to renew our licenses, approvals, registrations and permits, which will expire in 2015 and 2016 as disclosed below in this subsection, with the relevant authorities. We have liaised with the relevant authorities in Hong Kong and the PRC, completed required applications and made preparations to ensure the timely renewal of these licenses, approvals, registrations and permits. Please refer to the paragraph headed “Risk Factors — The TCM industry is heavily regulated, and any failure to obtain and maintain the required licenses, approvals and permits could impair our ability to conduct our business” in this prospectus for further discussion on the risks of non-renewal.

Approvals for the Sale of Our Products in Hong Kong

In Hong Kong, under the Chinese Medicine Ordinance, some of our CCMG products and Chinese healthcare products are classified as proprietary Chinese medicines, or PCM, and others are classified as non-PCM. Please refer to the subsection headed “Regulations — Laws and Regulations Relating to Our Business Operations in Hong Kong” in this prospectus for further details. We are also required to register some of our CCMG products and Chinese healthcare products, which are classified as PCM, and the certificate of registration is valid for five years. Although we are not required to register our CCMG single formulae products in Hong Kong, we adopt an exemplary manufacturing practice and voluntarily register some of our CCMG single formulae products. Such practice is consistent with our commitment to establishing the high quality standards for CCMG products. As at 31 December 2014, we registered over 300 of our CCMG products with the Chinese Medicines Board in Hong Kong.

For the wholesale of Chinese herbal medicine products in Hong Kong, we are required to, and have obtained, the relevant wholesale licenses (中藥材批發商牌照) from Chinese Medicine Traders Committee. These licenses are generally valid for two years. The following table set forth details of these licenses:

<u>Group company</u>	<u>Starting date</u>	<u>Expiry date</u>
PuraPharm International HK	30 June 2014	29 June 2016
PuraPharm International.....	18 August 2014	17 August 2016
Nong’s Company HK	18 August 2014	17 August 2016
Nong’s International.....	16 July 2014	15 July 2016
PuraPharm Corporation Ltd.....	7 July 2014	6 July 2016

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For the sale and distribution of our CCMG products and Chinese healthcare products, which are classified as PCM, in Hong Kong, we are required to, and have obtained, the relevant wholesale licenses in proprietary Chinese medicines (中成藥批發商牌照) from Chinese Medicines Traders Committee. These licenses are generally valid for two years. The following table set forth details of these wholesale licenses:

Group company	Starting date	Expiry date
PuraPharm International HK	29 May 2014	28 May 2016
PuraPharm International.....	28 May 2014	27 May 2016
Nong's Company HK	28 May 2014	27 May 2016
Nong's International.....	16 July 2014	15 July 2016
Poly Modern Research	26 July 2014	25 July 2016
PuraPharm Corporation Ltd.....	7 July 2014	6 July 2016
Natural Corporation	29 May 2014	28 May 2016

For the import and distribution of our CCMG products and Chinese healthcare products, which are classified as non-PCM, we have also obtained the requisite food importation and distribution registrations with the Food and Environmental Hygiene Department of Hong Kong.

For the sale of our CCMG products through our Nong's® (農本方)® Chinese medicine clinics, we have obtained relevant retail licenses, and the private Chinese medicine practitioners who operate these clinics for us have obtained their respective practising certificates. Furthermore, we have obtained the relevant licenses for import, re-export, export and possession of any part or derivative of animals or plants of endangered species in Hong Kong.

Approvals for the Sale of Our Products in the PRC

For sale of CCMG products to hospitals and medical institutions in the PRC, some provinces, autonomous regions and municipalities require us to obtain approvals from respective Provincial FDAs. The provincial approvals are generally subject to renewal after two to three years. The following table sets forth a summary of relevant approvals currently issued by the Provincial FDAs:

Issuing authority	Approved hospitals and medical institutions	Expiry date
Anhui Food and Drug Administration.....	Chinese medicine hospitals at the county level or above and general hospitals with Chinese medicine departments in Anhui Province	No expiry date
Chongqing Food and Drug Administration.....	Hospitals at the level two or above in Chongqing Municipality	1 December 2015
Fujian Food and Drug Administration.....	First-class of medical institutions at the level two or above in Fujian Province	No expiry date
Guangdong Food and Drug Administration.....	Medical institutions in Guangdong Province	No expiry date
Guangxi Food and Drug Administration.....	68 hospitals and medical institutions in Guangxi Zhuang Autonomous Region	from 11 July 2016 to 15 March 2017 ⁽¹⁾
Guizhou Food and Drug Administration.....	46 hospitals and medical institutions in Guizhou Province	26 August 2015 ⁽²⁾

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Issuing authority	Approved hospitals and medical institutions	Expiry date
Heilongjiang Food and Drug Administration.....	27 hospitals and medical institutions in Heilongjiang Province	21 April 2016
Hubei Food and Drug Administration	28 hospitals and medical institutions in Hubei Province	3 June 2016
Hunan Food and Drug Administration	30 hospitals and medical institutions in Hunan Province	23 November 2016
Inner Mongolia Food and Drug Administration...	Chinese medicine hospitals at the county level or above, and general hospitals with Chinese medicine departments in Inner Mongolia Autonomous Region	No expiry date
Jiangxi Food and Drug Administration	16 hospitals and medical institutions in Jiangxi Province	No expiry date
Jilin Food and Drug Administration.....	26 hospitals and medical institutions in Jilin Province	21 September 2015
Liaoning Food and Drug Administration.....	First-class of medical institutions at the level two or above in Liaoning Province	27 October 2015
Shaanxi Food and Drug Administration	48 hospitals and medical institutions in Shaanxi Province	25 September 2015
Shandong Food and Drug Administration.....	Medical institutions at the level two or above in Shandong Province	26 June 2015 ⁽³⁾
Shanghai Food and Drug Administration	Medical institutions in Shanghai Municipality	22 April 2017
Sichuan Food and Drug Administration	12 hospitals in Sichuan Province	No expiry date
Tianjin Food and Drug Administration.....	Two medical institutions in Tianjin Municipality	31 December 2015
Yunnan Food and Drug Administration.....	Hospital at the level two or above and Chinese medicine specialised medical institution in Yunan Province	No expiry date
Zhejiang Food and Drug Administration	Six hospitals and medical institutions in Zhejiang Province	No expiry date
Hebei Food and Drug Administration	11 hospitals and medical institutions in Hebei Province	1 April 2016

Notes:

- (1) The approval for 44 hospitals and medical institutions will expire on 11 July 2016, the approval for four hospitals and medical institutions will expire on 23 October 2016, the approval for five hospitals and medical institutions will expire on 21 December 2016, and the approval for 15 hospitals and medical institution will expire on 15 March 2017.
- (2) We have submitted the application for renewal of relevant license and the application is currently under the review of relevant authorities.
- (3) We have submitted the application for renewal of such licenses and the applications are currently under the review of relevant authorities. We expect to receive such renewed licenses by end of June 2015.

For the sale of our Chinese healthcare products in the PRC, we have obtained the sales license from the CFDA which is not subject to expiry.

Production Permits in the PRC

We obtained the approval from CFDA to manufacture and sell our CCMG products for clinical use in 2004 and became one of the only six CFDA-licensed CCMG product manufacturers at that time. Under the applicable PRC regulations, we are also required to obtain the GMP certification from the CFDA for the manufacture of CCMG products. Our GMP certification is valid for five years and may be renewed at least six months prior to expiry.

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The following table sets forth our major permits in respect of our manufacturing facilities in Nanning, Guangxi Zhuang Autonomous Region. We can also manufacture our Chinese healthcare products under these permits. We have successfully renewed each of these permits on a continuous basis historically, and each time prior to the expiry date of such permit.

Permit	Grant date	Expiry date
Pharmaceutical manufacturing permit.....	13 August 2013	31 December 2015
GMP certification.....	9 February 2010	27 January 2020
Importing health food approval certificate	1 December 2000	N/A
Food circulation permit.....	18 November 2014	17 November 2017
Health food distribution registration certificate (wholesale)	11 November 2013	N/A
Health food distribution registration certificate (retail)	7 November 2013	N/A

Our Registered Chinese Medicine Products in the PRC

The following table sets forth a summary of our registered Chinese medicine products with the CFDA. We are in the process of renewing the registrations in respect of these Chinese medicine products. Such registration process generally takes 90 days. We expect to renew such registrations by August 2015, except for our Compound LuoHanGuo Antitussive Granules (複方羅漢果止咳顆粒), which we expect to receive such renewal by September 2015.

Registered CCMG product	Grant date	Expiry date
Coriolus Gantai Granules (雲芝肝泰顆粒).....	17 August 2010	16 August 2015
Phyllanthus Emblica Throat Tablet (余甘子喉片).....	17 August 2010	16 August 2015
Pediatric Paracetamol Artificial Cow-bezoar and Chlorphenamine Maleate Granules (小兒氨酚黃那 敏顆粒).....	17 August 2010	16 August 2015
ShouWu and DiHuang Pill (首烏地黃丸)	17 August 2010	16 August 2015
Cholagogic Tablet (利膽片).....	17 August 2010	16 August 2015
Compound LuoHanGuo Antitussive Granules (複方 羅漢果止咳顆粒).....	13 September 2010	12 September 2015
Compound Hepatitis Granules (複方肝炎顆粒)	17 August 2010	16 August 2015
FangFeng Tongsheng Pill (防風通聖丸).....	17 August 2010	16 August 2015
BanLanGen (Radix Isatidis) Granules (板藍根顆粒) .	17 August 2010	16 August 2015

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Certificate for Exporting and Possession of Endangered Species of Chinese Herbs in the PRC

We export certain CCMG products which contain endangered species of Chinese herbs from the PRC. We have obtained the required export and import certificate for each batch of such exported products.

ENVIRONMENTAL PROTECTION

We are subject to environmental protection laws and regulations of the PRC. The major waste produced during our production process in our Nanning production base includes waste water, production emissions and solid wastes. We have obtained relevant waste water discharge permits and constructed our own waste water treatment station which has the capacity of 490 tons of waste water treatment per day. Through our activated sludge treatment, our waste water meets the grade one integrated waste water discharge standards set by the PRC government, which is then safely discharged into the municipal sewer network.

We discharge dust from pre-processing workshops after treatment of bag filters. Our production emission is in compliance with the required air pollution emission standards set by the PRC government.

For the years ended 31 December 2012, 2013 and 2014, our annual cost incurred in relation to environmental protection was approximately HK\$0.2 million, HK\$0.3 million and HK\$0.4 million, respectively. We expect that our cost of compliance with applicable environmental rules and regulations for the year ending 31 December 2015 will not materially deviate from the 2014 level. During the Track Record Period and up to the Latest Practicable Date, we had complied with all applicable environmental laws and regulations of the jurisdictions in which we have operations in all material respects. In addition, we have not been subject to any material claims or penalties in relation to environmental protection and were not involved in any environmental accidents or fatalities during the Track Record Period.

INSURANCE

We maintain product liability insurance which covers product liability arising in all jurisdictions in which we operate. We also maintain property insurance policies covering our buildings, inventories, equipment and facilities, as well as travel insurance for our employees in accordance with customary industry practices. We maintain public liability insurance within the PRC on potential liability relating to accidents occurring in direct connection with our work and in the vicinity of our premises. We maintain group medical insurance for our employees in Hong Kong and purchase occupational injury, medical, pension, maternity and unemployment insurance for our employees in the PRC in compliance with applicable PRC regulations. We also maintain inland transit insurance that covers all risks of loss and damages to our raw materials and products during transportation within and between Hong Kong and the PRC. We consider our current insurance coverage to be adequate and in line with industry practice. However, 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 practices in Hong Kong and the PRC.

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INTELLECTUAL PROPERTY RIGHTS

We recognise the importance of intellectual property rights to our business and are committed to their development and protection. We rely on a combination of patents, trademarks and trade secrets as well as employee and third-party confidentiality agreements to safeguard our intellectual property.

We own and have applied for patents to protect the technologies, inventions and improvements material to our business, which primarily relates to: (i) ensuring the quality, curative efficacy and reliability of Chinese herbal extracts during the production process; (ii) improving the physical appearance and texture of our CCMG products for clinical use; and (iii) improving the design and functions of our CMCMS. As at the Latest Practicable Date, we had seven patent registrations in the PRC. We also had six patent applications filed in the PRC which are pending the approvals by the competent patent regulatory authorities.

Moreover, we also rely on trademarks to protect the market names of our products. As at the Latest Practicable Date, we had 293 trademark registrations in the PRC, Hong Kong and other countries and regions. We also had 34 trademark applications filed in the PRC, Hong Kong and other countries and regions that are pending the approvals of the competent patent regulatory authorities.

In addition, we were the owner of 81 domain names as at the Latest Practicable Date. Details of the intellectual property rights that are material to our business are set out in the paragraph headed “Statutory and General Information — B. Information about the Business — 2. Intellectual Property Rights of Our Group” in Appendix IV to this prospectus.

We actively take steps to protect our intellectual property rights and implement a set of internal intellectual property management rules. In February 2015, we initiated trademark litigation proceedings in the U.S. against a third party in relation to its infringement of our “PuraPharm” trademark. As at the Latest Practicable Date, such litigation proceedings were still in progress. As advised by our U.S. legal advisers, in the event that the case proceeds to trial, it may take approximately two years for us to obtain a court judgment. Our management and research and development personnel have entered into confidentiality agreements with us confirming that we have ownership rights in all inventions, designs, trade secrets, works of authorship, developments and other processes generated by them during the course of employment. This assigns to us any ownership rights that they may claim in those works.

Save as disclosed above in this subsection in relation to the U.S. trademark litigation, during the Track Record Period and up to the Latest Practicable Date, our Directors, to their best knowledge, were not aware of any past incident of infringement of our intellectual property or counterfeiting of our products by any third party that have a material impact on our Company.

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PROPERTY

Owned Properties

The table below sets forth a summary of the properties owned by our Company in Nanning, Guangxi Zhuang Autonomous Region as at 31 December 2014:

<u>Business purpose</u>	<u>Brief description of the properties</u>	<u>Total site area (sq.m.)</u>	<u>Gross floor area (sq.m.)</u>
Production plant, office building and warehouses ...	We have the land use rights in one parcel of land and three building ownership certificates in respect of the relevant production plant, office building and warehouse.	17,241	7,760
Land parcel for our future manufacturing facilities.....	We are applying for the land use right certificate in respect of the land parcel.	41,387	N/A

Leased Properties

The table below sets forth a summary of the properties leased by our Company in Hong Kong and the PRC as at 31 December 2014:

<u>Country</u>	<u>Location</u>	<u>Business purpose</u>	<u>Total gross floor area (sq.m.)</u>	<u>Range of expiry dates in relevant lease agreements</u>
Hong Kong	Central; and Hong Kong Science Park, New Territory	Corporate headquarters and offices	839	From December 2015 to January 2016
	Various regions	10 Nong's® (農本方)® Chinese medicine clinics	389	From May 2015 to December 2017
PRC	Nanning, Guangxi Zhuang Autonomous Region	Warehouses	10,062	From May 2015 to February 2017
	Beijing; Shanghai; and Shenzhen	Offices	323	From July 2015 to March 2016

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We also lease a farm land with a site area of 279,856 sq.m. in Jingxi County, Guangxi Zhuang Autonomous Region. A significant portion of our leased farm land constitutes of stony land and dry land which are generally not suitable for farming and we use sections of the remaining portion of our leased farm land to plant certain raw Chinese herbs. The lease term is 30 years from 1 January 2013 for hillside slope and stony land parcels, and 18 years from the same date for dry land and farmland for forest restoration. The primary purpose for our lease and use of the farm land is to gain a better understanding of the properties and characteristics of certain raw Chinese herbs by monitoring the growth processes of raw Chinese herbs. After we have gained the knowledge, we plan to use such knowledge to improve our handling of the raw Chinese herbs in production process and relevant manufacturing techniques. The harvest of these raw Chinese herbs is very minimal and we do not engage in and have no intention in the future to engage in the sale of any raw Chinese herbs harvested from such farm land. Please refer to the subsection headed “Relationship with Our Controlling Shareholders — Delineation of Businesses — Plantation of Raw Chinese Herbs Business of the Excluded Group” for further details.

As at the Latest Practicable Date, where necessary and required, our lease agreements in the PRC were duly registered, legally binding and enforceable, save as disclosed in the subsection headed “— Regulatory Compliance — Systemic Non-compliance Incidents” in this section. Our PRC legal advisers, Jun He Law Offices, confirmed that the validity and enforceability of these lease agreements that have been provided with relevant title certificates are not affected by the failure to complete registration of the relevant lease agreements.

According to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all our interests in land or buildings, since as at 31 December 2014, the carrying amount of our property interest was less than 15% of our consolidated total assets.

EMPLOYEES

As at 31 December 2014, we had a total of 422 employees, of which 69 employees in Hong Kong, 328 employees in Nanning, Guangxi Zhuang Autonomous Region, 17 employees in Shenzhen, four employees in Shanghai and four employees in Beijing. We also engage experts and consultants in

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different fields, such as equipment maintenance and raw material procurement, based on our production needs. The following table sets forth a breakdown of the number of our employees by function as at 31 December 2014:

Function	Number of employees
Production and logistics	166
Marketing and sales	117
General administration	38
Quality control	34
Research and development	33
Finance	19
Procurement	8
Legal and compliance	5
Medical information and resource centre	2
Total	422

We aim to create a strong sense of community and a motivating environment for our employees to enhance employee loyalty and work dedication. In general, we recruit and determine employees' compensation based on their performance, qualifications, position and seniority. We adjust employees' salary every year and also provide other compensations and benefits to our employees (including performance-based bonuses, certain amounts of product allowances and discounts on purchases of our products). As required by PRC laws, employees also receive welfare benefits including medical care, unemployment and occupational injury insurance. As required by the applicable regulations in Hong Kong and the PRC, we participate in various retirement plans organised by local governments for our employees.

We maintain detailed training policies for our employees. We have established a training department under our human resources department, whose main responsibility is to coordinate the training for staff in our different departments. We provide general training to all our employees and customised training programmes to employees in various functions, for example, training for our production employees on GMP standards and occupational safety, training for our marketing and sales team on educating customers to use our CMCMS and training for our finance employees on the use of financial management software.

We maintain good working relationships with our employees. We believe that our management policies, work environment, staff development opportunities and benefits have contributed to such good employee relations. We have established an employee labour union in our PRC operations in which all our PRC employees are eligible to participate. Our labour union represents the interests of our employees and works closely with our management on labour-related issues. The union also organises various activities for our employees. As at the Latest Practicable Date, our employees have not negotiated their terms of employment through any labour union or by way of collective bargaining agreements and we have not experienced any strikes or any labour disputes with our employees which have had or are likely to have a material effect on our business.

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OCCUPATIONAL HEALTH AND SAFETY

We are subject to various laws and regulations in respect of health and occupational safety in Hong Kong and the PRC. We are committed to complying with the applicable regulatory requirements, preventing and reducing hazards and risks associated with our operation, and ensuring the health and safety of our employees and surrounding communities. We conduct regular and thorough worksite inspections to eliminate potential hazardous work environment. In addition, we also provide our employees with ongoing occupational safety education and training to enhance their awareness of safety issues. During the Track Record Period and up to the Latest Practicable Date, we did not experience any accident at our manufacturing facilities which results in any personal injury to our employees or material production interruption.

REGULATORY COMPLIANCE

Except as disclosed below in this subsection, to the best knowledge of our Directors, we complied with the law and regulations of Hong Kong and the PRC applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date. Please refer to the section headed “Regulations” in this prospectus for further discussion on regulatory compliance in Hong Kong and the PRC.

Systemic Non-compliance Incidents

The following table sets forth the details of systemic non-compliance incidents of our Group during the Track Record Period in the PRC:

Particulars of non-compliance incidents	Legal consequences	Potential impact on our Group	Enhanced internal control measures
<p>Provincial approvals for the clinical use of our CCMG products</p> <p>According to the Provisional Regulations on Administration of Concentrated Chinese Medicine Granules (《中藥配方顆粒管理暫行規定》) or the CCMG Regulations, as a CFDA-approved manufacturer of CCMG products, we are only required to file a list of clinical hospitals using our CCMG products with the relevant Provincial FDA, which oversees local hospitals and medical institutions within its jurisdiction, and there is no requirement under the CCMG Regulations to obtain the approval of the relevant Provincial FDA. Although the CCMG Regulations only require the filing of the list of clinical hospitals using our CCMG products, the different Provincial FDAs interpret the CCMG Regulations in different ways and implement the CCMG Regulations in an inconsistent manner. For example, some of these Provincial FDAs required that the CCMG manufacturer should obtain approval for the clinical use of CCMG products, while other Provincial FDAs refused to grant any approval to, or accept the filing of, any list of hospitals and medical institutions within their jurisdictions who were using our CCMG products clinically (“Non-approved Customers”).</p> <p>For the years ended 31 December 2012, 2013 and 2014, sales of our CCMG products to the Non-approved Customers accounted for approximately 9.8%, 7.4% and 8.8% of our total revenue for the same periods, respectively.⁽¹⁾</p> <p><i>Reasons for non-compliance</i></p> <p>As a result of the confusion caused by the different interpretations and implementation by Provincial FDAs of the CCMG Regulations, the relevant officer who was responsible for handling the filing of the list of clinical hospitals to the Provincial FDA inadvertently believed that it was not compulsory to obtain approvals for the clinical use of our CCMG products under the CCMG Regulations. The failure to obtain approvals was therefore an unintended and inadvertent omission.</p>	<p>As advised by our PRC legal advisers, the relevant Provincial FDAs may order the Non-approved Customers to cease clinical use within a prescribed time limit. If any of the Non-approved Customers fails to cease clinical use, the relevant Provincial FDAs can investigate and impose administrative punishment on such Non-approved Customer.</p> <p>Our PRC legal advisers have further advised us that we are not subject to any monetary fines or administrative punishment in accordance with the applicable national and local laws and regulations in the PRC. Please refer to the section headed “Regulations” in this prospectus for further discussion.</p>	<p>During the Track Record Period and up to the Latest Practicable Date, we have filed the list of all clinical hospitals and medical institutions using our CCMG products to the relevant Provincial FDA in compliance with the CCMG Regulations and we did not receive any notification from the relevant authorities alleging that we were in breach of the CCMG Regulations and penalising us for such breach, nor did we receive any order to cease the clinical use of our CCMG products in any of the Non-approved Customers.</p> <p>In relation to the Non-approved Customers, we have either:</p> <p>(i) obtained approvals from the relevant Provincial FDAs for the clinical use of our CCMG products in the Non-approved Customers and confirmations stating that we were not subject to any penalty or administrative punishment imposed by the competent Provincial FDAs due to the breach of the applicable national and local laws and regulations in the PRC; and that we had not conducted any activities which would subject us to any future penalty or administrative punishment due to the breach of the applicable PRC and local laws and regulations; or</p> <p>(ii) terminated (either upon mutual agreement or upon expiry of the terms of the relevant sales agreements) such sales agreements with the respective Non-approved Customers; or</p> <p>(iii) unilaterally ceased the sale of our CCMG products to the Non-approved Customers.</p> <p>Based on the above, our PRC legal advisers have advised us that the likelihood that the relevant authorities will impose any administrative punishment or penalty on us is low. Our PRC legal advisers have further advised us that the relevant Provincial FDAs are the competent and responsible authorities to issue such confirmations.</p> <p><i>Indemnity by our Controlling Shareholders</i></p> <p>Our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us arising from this non-compliance incident.</p>	<p>We have established a written formal policy and implemented internal control measures for the sale of our CCMG products for clinical use in the PRC. Specifically, such policy and measures include the following:</p> <p>(i) Before we sell our CCMG products to any new customer for clinical use, our regional sales managers shall verify that we have obtained the relevant approval from the responsible Provincial FDA. Our regional sales managers shall further ensure that the sale of our CCMG products to this customer shall be within the scope as prescribed in the relevant approval;</p> <p>(ii) Our legal and compliance department shall review the lists of potential customers from regional sales managers and where necessary, submit applications promptly to the relevant Provincial FDAs for approval. The department shall also seek legal advice from external counsels on any uncertain matter in relation to approvals;</p> <p>(iii) Our internal audit department shall regularly audit whether we have obtained the relevant approvals for all our customers; and</p> <p>(iv) Internal control committee has been established to ensure the compliance with our internal control policies and the implementation of new internal control policies when necessary.</p>

Particulars of non-compliance incidents	Legal consequences	Potential impact on our Group	Enhanced internal control measures
<p>Social insurance and housing provident fund contributions</p> <p>During the Track Record Period, we did not make full contributions to the social insurance schemes and the housing provident funds for our employees based on their actual wages as required by the relevant PRC laws.</p> <p><i>Reasons for non-compliance</i></p> <p>Our human resources department in the PRC made contributions for our employees according to their understanding of local general practice where we have operations.</p>	<p><i>Social insurance contribution</i></p> <p>As advised by our PRC legal advisers, the relevant authorities may order us to pay the outstanding social insurance contribution within a stipulated period and (i) in respect of any outstanding amount incurred before 1 July 2011, if the payment is not made within the stipulated period, the relevant authorities may levy a surcharge equal to 0.2% of the outstanding amount for each day from the actual due date; and (ii) in respect of any outstanding amount incurred on or after 1 July 2011, the relevant authorities may levy a surcharge equal to 0.05% of the outstanding amount for each day from the actual due date. In addition, if the payment is not made within the stipulated period, the relevant authorities may impose on us a fine between one to three times the outstanding amount.</p> <p><i>Housing provident fund contribution</i></p> <p>Our PRC legal advisers have further advised that the relevant authorities may order us to pay the outstanding housing provident fund contributions within a stipulated time period and if the payment is not made within the stipulated time period, the relevant authorities may apply to the relevant courts to enforce payment of the outstanding amounts.</p> <p>As at 31 December 2014, we made provisions for the underpaid amounts of social insurance contribution and housing provident fund contribution of approximately HK\$1.7 million and HK\$2.0 million, respectively.</p>	<p>During the Track Record Period and up to the Latest Practicable Date, we did not receive any notification from the relevant authorities alleging that we had not fully contributed to the social insurance schemes or the housing provident funds and demanding payment of any outstanding amount of social insurance and housing provident fund contributions within a stipulated time limit. In the event that we receive any request from the relevant authorities, we intend to immediately pay the outstanding amounts, as well as all late surcharges and fines imposed by the relevant authorities.</p> <p>We have also obtained confirmations from the relevant local social insurance and housing provident fund authorities for our PRC subsidiary.</p> <p>Based on the above, our PRC legal advisers have advised that the risk that the relevant social insurance and housing provident fund authorities will demand the unpaid social insurance and housing provident funds from us or impose any administrative punishment on us is low.</p> <p>Our PRC legal advisers have further advised that the relevant social insurance authorities and housing provident fund authorities are the competent and responsible authorities to issue such confirmations.</p> <p><i>Indemnity by our Controlling Shareholders</i></p> <p>Our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us arising from this non-compliance incident.</p>	<p>We make full contributions to the social insurance schemes and the housing provident funds as required by the relevant laws for our current employees, either starting from 1 January 2015 or at the earliest practicable date as determined by the relevant authorities for our other employees in the PRC.</p> <p>We have established a written formal policy and implemented internal control measures for social insurance and housing provident fund contributions. Specifically, such policy and measures include the following:</p> <ul style="list-style-type: none"> (i) When new employees commence their positions with us, we make full contributions to the social insurance schemes and the housing provident funds for these employees, and our human resources department is required to make employment records for each employee and complete registration with the social insurance schemes and the housing provident funds; (ii) Our finance department is required to make timely payments to the social insurance schemes and the housing provident funds each month; and (iii) Internal control committee has been established to ensure the compliance with our internal control policies and the implementation of new internal control policies when necessary.

Note:
(1) Sales of our CCMG products to the Non-approved Customers include both those through distributors as well as those through direct sales. In calculating the annual revenue contribution of distributor sales to the Non-approved Customers, we have no reliable means to determine the annual distributor sales to the Non-approved Customers and to the approved customers out of the total annual distributor sales amount for each distributor. For prudent reason and for illustrative purposes, we have included: (i) the annual direct sales to Non-approved Customers; and (ii) the annual distributor sales to the Non-approved Customers as well as to the approved customers, to estimate and calculate the maximum percentage of the revenue contribution from the Non-approved Customers during the Track Record Period.

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Particulars of non-compliance incidents	Legal consequences	Potential impact on our Group	Enhanced internal control measures
<p>Leased properties</p> <p>As at the Latest Practicable Date, our PRC subsidiary leased five properties for warehouse and office uses and the landlords of four of these properties did not complete the registration of lease agreements with the relevant housing administrations in the PRC.</p> <p><i>Reason for non-compliance</i></p> <p>In respect of three of these leased properties, the landlords have not been cooperative to register the relevant lease agreements; and in respect of the remaining one leased property, the landlord is currently in the process of obtaining the relevant building ownership certificate.</p>	<p>According to the Administrative Measures for Commodity Housing Tenancy which came into effect as at 1 February 2011, the parties to a lease agreement must file such agreement with the competent housing administration within 30 days after they enter into the lease agreement. If the parties fail to file such lease agreement within the 30 days, the relevant housing administration may request the parties to rectify the situation. If the parties fail to rectify it within the specified time limit, the housing administration may impose a fine not more than RMB10,000.</p>	<p>During the Track Record Period and up to the Latest Practicable Date, we did not receive any notice from the relevant authorities that we had failed to make requisite filings.</p> <p>Our PRC legal advisers have confirmed that the housing administrations may impose fines on our PRC subsidiary as a result of the failure to register the relevant lease agreements, but the validity and enforceability of these lease agreements are not affected and our PRC subsidiary shall continue to have the right to use the leased properties in accordance with the relevant lease agreements.</p>	<p>Our PRC legal advisers have advised us that in order to complete the requisite registration, we need cooperation from the landlords. In the event that we receive any request from the relevant housing administrations, we will immediately work with the landlords to rectify the situation and register the relevant lease agreements. We have also implemented internal control measures for registration of lease agreements. Specifically, these measures include the following:</p> <p>(i) Our legal and compliance department shall regularly update the list of our leased properties, monitor the latest status, coordinate with the new landlord on the registration of the lease agreements before signing, and complete lease registration within 30 days after signing of such agreements;</p> <p>(ii) Our legal and compliance department shall evaluate the relevant risk and where necessary, seek legal advice from external legal counsels;</p> <p>(iii) Upon renewal of these lease agreements, we will renegotiate the terms to require the landlords to assist in registration of the relevant lease agreements, where necessary. In case certain of these lease agreements cannot be filed upon expiry of the specified time limits for rectification and the landlords remain uncooperative, we may terminate such lease agreements;</p> <p>(iv) Before we renew existing leases or enter into new lease agreements in the PRC, we will consider a series of factors, in particular, the willingness of landlords to assist us in lease registration; and</p> <p>(v) Internal control committee has been established to ensure the compliance with our internal control policies and the implementation of new internal control policies when necessary.</p>

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Views of Our Directors and the Sole Sponsor

Our Directors are of the view that the above systemic non-compliance incidents of our Group during the Track Record Period, individually or in the aggregate, do not and will not have any material financial or operational impact on us. After considering (i) our rectifications, (ii) improvement actions, (iii) business nature and operation scale, (iv) the facts and circumstances leading to the non-compliance incidents disclosed herein, (v) the advice provided by our PRC legal advisers, Jun He Law Offices, (vi) the enhanced rectification and on-going compliance measures mentioned above, and (vii) as confirmed by our Directors, none of these incidents were conducted intentionally, or involved any issue in the integrity, character or competence of our Directors or senior management, our Directors and the Sole Sponsor are of the view that:

- (i) our enhanced internal control measures in place are adequate and effective; and
- (ii) the non-compliance incidents of our Group do not affect the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules or our suitability for listing under Rule 8.04 of the Listing Rules.

INTERNAL CONTROL AND RISK MANAGEMENT

We are exposed to various risks during our operation. Please refer to the section headed “Risk Factors” for further discussion. We focus on enhancing our internal control and risk management systems. We have implemented various policies and procedures to ensure effective risk management in each aspect of our operations, including the manufacture and sale of CCMG products and Chinese healthcare products, administration of daily operations, financial reporting and recording, fund management, and compliance with applicable laws and regulations of Hong Kong and the PRC on drug safety and quality as well as properties. Our Board of Directors and senior management assume the overall responsibilities for overseeing the implementation of our internal control and risk management procedures and other measures throughout our Company. We will establish an audit committee upon the Listing to review and supervise the financial reporting process, as well as the internal control and risk management systems of our Group. Please refer to the subsection headed “Directors and Senior Management — Board Committees — Audit Committee” in this prospectus for further discussion.

Corporate Governance Measures

In order to continuously improve our corporate governance and to prevent recurrence of the non-compliance incidents, we intend to adopt or have adopted the following measures:

- (i) Prior to the Listing, our Directors and senior management attended training sessions on applicable laws and regulations, including the Listing Rules, provided by our external legal advisers. We will continue to arrange various trainings to be provided by external legal advisers from time to time and/or any appropriate accredited institution to update our Directors, senior management and relevant employees on the latest laws and regulations of Hong Kong and the PRC;

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- (ii) we have established an internal control committee which is led by our managing director to review compliance matters of our Group, including, monitoring and implementation of the internal control policies to prevent any future non-compliance. The internal control committee regularly reports to the Board;
- (iii) we will engage external advisers where necessary and work with our internal audit department and legal and compliance department to conduct regular reviews to ensure that all registrations, licenses, permits, filings and approvals are valid and that the renewals of such documents are made in a timely manner; and
- (iv) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Southwest Securities (HK) Capital Limited as our compliance adviser with effect from the date of Listing.

Anti-Corruption Measures

As part of our risk management and internal control system, we have formally established a set of internal regulations (the “**Internal Regulations**”) in relation to bribery, corruption and fraudulent activities, which strictly prohibit paying or receiving bribes and kickbacks in commercial transactions. We have included the Internal Regulations in our employee handbook and our anti-corruption policy. Employees who violate any of the Internal Regulations are subject to penalties, including termination of employment. Furthermore, we have implemented the following measures in order to prevent such illegal practices:

- *Internal compliance.* Our legal and compliance department regularly provides an update of our anti-corruption requirements to our senior management, department heads, managers and employees holding key positions in our marketing and sales, procurement and finance departments. In our employee handbook and our anti-corruption policy, we specifically require them to fully comply with the Internal Regulations and our anti-corruption policy. We also require them to attend ongoing training programs in order to enhance their knowledge and awareness of relevant anti-corruption regulations (including, among others, the Prevention of Bribery Ordinance (Chapter 201, Laws of Hong Kong) as well as various PRC laws and regulations);
- *Customers, distributors, suppliers and third party consultants.* We have notified our direct sales customers, distributors, suppliers and third party consultants in writing that any form of bribery, corruption and fraudulent activities is strictly prohibited in the sales or purchases of our products, our procurement of raw materials and other relevant business transactions, and all our employees shall fully comply with all applicable anti-corruption laws and regulations and restrain from any illegal practice or misconduct;
- *Complaint.* We have implemented procedures for handling complaints against our Directors, employees, distributors, third party consultants and other business partners as well as conducting further internal investigations. Through our whistle-blower hotline and emails, we follow up on complaints (either with claimant identified or anonymously) relating to bribery, corruption and fraudulent activities. To date, we have not received any complaint relating to such activities; and

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- *Internal audit.* Our internal audit department regularly monitors the implementation of relevant internal control measures. Our internal audit department will also conduct inspections on hospitals and medical institutions to understand the performance of third party consultants and ensure that the third party consultants have not made any improper payment to them.

In order to prevent any amount we pay to our third party consultants (which we have engaged for business development, client relationship development, sales planning and marketing as well as to ensure proper usage of our CMCMS) in the PRC from being used for improper payments to our customers or government officials, we require all third party consultants to undertake in writing that:

- they understand and have complied with the applicable laws and regulations, including, among others, the PRC anti-corruption laws and regulations;
- they have not made, and will not make, any improper payment to third party customers, government officials, intermediaries or any other parties, for the purpose of obtaining or retaining business; and
- they have not engaged in, and will not engage in, any illegal practice or misconduct, and shall compensate us for our losses if their illegal practice or misconduct causes any damage to our corporate image or reputation.

In addition, we assign our sales personnel to communicate with the hospital staff and doctors of hospitals and medical institutions regularly to ensure that third party consultants have not made any improper payment to them. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our sales personnel have not received any complain from the hospital staff and doctors regarding any bribery, corruption or fraudulent practice of third party consultants. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, they have not engaged in, and have not been aware of, any bribery, corruption or fraudulent practice by our Directors, employees, distributors and third party consultants. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, our Group has not been involved in any monetary and non-monetary bribery activities, and has not been subject to any anti-corruption claims or investigations by the relevant authorities. As such, our Directors consider that our anti-corruption policy and procedures and relevant internal control measures have been sufficient and effective to ensure our compliance with the relevant anti-corruption laws and regulations as well as to prevent the occurrence of bribery, corruption or fraudulent practice by our Directors, employees and third party consultants.

LEGAL PROCEEDINGS

Save as disclosed in the subsection headed “— Intellectual Property Rights” in this section in relation to the U.S. trademark litigation, during the Track Record Period and up to the Latest Practicable Date, we were not a party to any actual or pending litigation, legal dispute, claim or administrative proceedings of material importance to which our Company or any of its subsidiaries or

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any of our Directors is a party, and we are not aware of any threatened material litigation, legal dispute, claim or administrative proceedings against our Company or any of our subsidiaries or any of our Directors.

During the Track Record Period and up to the Latest Practicable Date, there were no material personal injury, death or product liability claims that were brought against us for damages in connection with our business operations.

AWARDS AND RECOGNITIONS

During the Track Record Period and up to the Latest Practicable Date, we have received widespread recognition from government authorities and industry associations. The table below sets out some of the awards we have received in respect of our group companies:

Institution	Award	Month and year of issue
Hong Kong Brand Development Council (香港品牌發展局) and the Chinese Manufacturers' Association of Hong Kong (香港中華廠商聯合會)	2014 Hong Kong Top Brand (香港名牌)	February 2015
Management Committee, Nanning New and High-tech Industrial Development Zone (南寧高新技術產業開發區管理委員會)	2013 Top 20 Comprehensively Competitive Company of Nanning New and High-tech Industrial Development Zone (2013年度高新區綜合實力20強企業)	March 2014
Management Committee, Nanning New and High-tech Industrial Development Zone (南寧高新技術產業開發區管理委員會)	2013 Industrial Production Competition Winning Company (2013年度工業生產競賽優勝企業)	March 2014
Management Committee, Nanning New and High-tech Industrial Development Zone (南寧高新技術產業開發區管理委員會)	2013 Technology Innovation Outstanding Enterprise and Individual (2013年度技術創新先進企業和先進個人)	March 2014
Management Committee, Nanning New and High-tech Industrial Development Zone (南寧高新技術產業開發區管理委員會)	2013 Safety Management Outstanding Enterprise and Individual of Nanning New and High-tech Industrial Development Zone (2013年度高新區安全生產管理先進企業和先進個人)	March 2014
Guangxi Zhuang Autonomous Region People's Government (廣西壯族自治區政府)	2013 Guangxi Science and Technology Advancement Award (2013年度廣西科技進步獎勵 (三等獎))	January 2014

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Institution	Award	Month and year of issue
Agricultural Department, Guangxi Zhuang Autonomous Region of the People's Government (廣西壯族自治區農業廳)	2013 Guangxi Agriculture Industrialisation Leading Enterprise (2013年度自治區農業產業化重點龍頭企業)	December 2013
Nanning Municipal People's Government (南寧市人民政府)	Member of Nanning Municipal 9th Batch of Agriculture Industrialisation Leading Enterprises (南寧市第九批農業產業化重點龍頭企業)	October 2013
Nanning Municipal Federation of Trade Unions (南寧市總工會)	1st Award of One Hundred Employee Invention Patents (《百件職工優秀發明專利》一等獎)	April 2013
Nanning Municipal Federation of Trade Unions (南寧市總工會)	2nd Award of One Hundred Employee Technology Innovations (《百項職工優秀技術攻關項目》二等獎)	April 2013
Management Committee, Nanning New and High-tech Industrial Development Zone (南寧高新技術產業開發區管理委員會)	2012 Top 20 Comprehensively Competitive Company of Nanning New and High-tech Industrial Development Zone (南寧市高新區2012年度綜合實力二十強企業)	March 2013
Management Committee, Nanning New and High-tech Industrial Development Zone (南寧高新技術產業開發區管理委員會)	2012 Industrial Production Competition Winning Company (南寧市高新區2012年度工業生產競賽優勝企業)	March 2013
Management Committee, Nanning New and High-tech Industrial Development Zone (南寧高新技術產業開發區管理委員會)	2012 Safety Management Outstanding Enterprises and Individuals (關於表彰2012年度安全生產管理先進企業和先進個人的決定)	March 2013
Science and Technology Department, Guangxi Zhuang Autonomous Region of the People's Government (廣西壯族自治區科學技術廳)	New and High-tech Enterprise (高新技術企業)	November 2012
China Association for Management of Technology Innovation (中國技術創新管理協會)	Member of China Association for Management of Technology Innovation (中國技術創新管理協會理事單位)	September 2012

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately upon completion of the Capitalisation Issue and the Global Offering, Mr. Chan and Ms. Man will, via Fullgold Development, Joint Partners and PuraPharm Corp., be beneficially interested in approximately 57.28% of the issued share capital of our Company taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of options granted under the Share Option Scheme, and hence Mr. Chan, Ms. Man, Fullgold Development, Joint Partners and PuraPharm Corp. are our Controlling Shareholders.

Apart from the business relating to the research, production and sale of CCMG products and Chinese healthcare products, our Controlling Shareholders and their close associates are currently operating other businesses such as trading of pet's health food products, production and sale of software, provision of information technology support, plantation and trading of raw Chinese herbs and research and development on the molecular structure of herbs specifically for application in western medicine (the "**Excluded Businesses**"). In order to focus on our business in the research, production and sale of CCMG products and Chinese healthcare products, and in line with our strategic direction and development plan, the Excluded Businesses will not form part of our Group after Listing.

None of our Controlling Shareholders is interested in any business which is, whether directly or indirectly, in competition with our business. To ensure that competition will not exist in the future, each of our Controlling Shareholders has entered into the Deed of Non-Competition in favour of our Company to the effect that each of them will not, and will procure each of their respective close associates not to, directly or indirectly participate in, or hold any right or interest, or otherwise be involved in any business which may be in competition with our businesses.

DELINEATION OF BUSINESSES

Our Directors are of the view that there is a clear delineation between the Excluded Businesses and our business, as a result of which none of the Excluded Businesses would compete, or is expected to compete, directly or indirectly, with our core business. None of the companies which are excluded from our Group (the "**Excluded Group**") are engaged in any business relating to the research, production and sale of CCMG products and Chinese healthcare products that competes or may compete with us. The Excluded Businesses were not injected into our Group, and, as at the Latest Practicable Date, there was no intention to inject the Excluded Businesses into our Group in the future, as our Directors are of the view that such businesses neither form part of our core business nor are in line with our strategy to strengthen our market position in the research, production and sale of CCMG products and Chinese healthcare products industry.

Our Group is principally engaged in the research, production and sale of CCMG products and Chinese healthcare products, whereas the Excluded Businesses comprise principally trading of pet's health food products, trading of software, provision of information technology support, plantation and trading of raw Chinese herbs and research and development on the molecular structure of herbs specifically for application in western medicine. Given the different nature of our business and the Excluded Businesses, our Directors do not expect there to be any overlap or competition of the Excluded Businesses and our Group's business after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Research and Development Business of the Excluded Group

The Excluded Group's research and development efforts are focused on the identification of the single active molecule in herbs and its relevant activities specifically for application in western medicine ("**Research and Development Business**"). In contrast, our Group's research and development efforts are focused on the quality standardisation of CCMG products and the formulation of new Chinese healthcare products. Please refer to the section "Business — Research and Product Development" in this prospectus for further details on our Group's research and development. Our Directors are of the view that our business can be clearly differentiated from the Excluded Group's Research and Development Business and will not be in competition due to the following reasons:

Different business strategies — The business model of the Excluded Group's Research and Development Business is distinguishable from our Group's business model. The business model of the Excluded Group's Research and Development Business will focus on the identification of the single active molecule in herbs and its relevant activities specifically for application in western medicine but not the production of CCMG products or Chinese healthcare products. The research and development activities conducted by our Group are principally focused on the quality standardisation of our CCMG products and the development of new Chinese healthcare products.

Different target customers — The target customers of the Excluded Group's Research and Development Business are entirely distinguishable from our target customers. The Excluded Group's Research and Development Business is mainly targeted at pharmaceutical companies for western medicine. In contrast, we use our research and development results in the production and development of our own products and do not sell our results to pharmaceutical companies. Our customers are mainly hospitals, Chinese medicine clinics, non-profit organisations, pharmacy chain stores and Chinese medicine practitioners.

Plantation of Raw Chinese Herbs Business of the Excluded Group

Leveraging on the experience and expertise of two of our raw Chinese herbs suppliers and seeing this as an investment opportunity to invest in the business of the plantation and sale of raw Chinese herbs in the PRC (the "**Plantation Business**"), Gold Sparkle, a company wholly owned by Mr. Chan which forms part of the Excluded Group, entered into a joint venture arrangement with the ultimate owners of two of our raw Chinese herbs suppliers (the "**Suppliers**") to engage in the Plantation Business through two subsidiaries of Gold Sparkle Plantation. Pursuant to the joint venture arrangement, Gold Sparkle will hold 63.16% interest in Gold Sparkle Plantation and the remaining 36.84% interest will be held by the joint venture partners. Gold Sparkle Plantation, through two of its subsidiaries in the PRC, will be primarily engaged in the Plantation Business. Gold Sparkle is a financial investor and the joint venture partners will be responsible for the day-to-day management and operation of the Plantation Business as Mr. Chan will spend substantially all of his working time in the operations of our Group after Listing and he does not have experience in the management and operation of the Plantation Business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In contrast, we are not engaged in the plantation and sale of raw Chinese herbs but are focused on the research, production and sale of CCMG products and Chinese healthcare products. We procure raw Chinese herbs from suppliers for the production of our CCMG and Chinese healthcare products. The Plantation Business was not injected into our Group as part of the Reorganisation as our Directors are of the view that the Plantation Business neither forms part of our core business nor is consistent with our overall strategy to maintain and further strengthen our market position as a leading Hong Kong-based Chinese medicine company engaged in the research and development, production, marketing and sale of CCMG products. Our Directors are of the view that our business can be clearly differentiated from the Plantation Business and will not be in any direct or indirect competition due to the following reasons:

Different product offering — The products of the Plantation Business are entirely distinguishable from our products. The Excluded Group's Plantation Business only produces raw Chinese herbs which generally require further processing by Chinese medicine manufacturers (such as our Group) before it can be prescribed to patients. In contrast, we produce CCMG and Chinese healthcare products which are ready for consumption by patients.

Different business models — The business model of the Plantation Business is also differentiated from our business model. The business model of the Plantation Business will focus on the plantation and sale of raw Chinese herbs in the PRC. In contrast, we will focus on the manufacture and sale of CCMG and Chinese healthcare products as well as the operation of Chinese medicine clinics.

Different target customers — The target customers of the Plantation Business are entirely distinguishable from our target customers. The Plantation Business is primarily targeted at Chinese medicine manufacturers (such as our Group and also other independent third party customers), which will further process the raw Chinese herbs. In contrast, we market and distribute our products through both direct sales channels and third party distributors to hospitals, medical institutions, TCM clinics, specialised pharmaceutical and general retail chains and private TCM practitioners, who in turn prescribe our CCMG products to patients.

Software Development Business of the Excluded Group

The Excluded Group is engaged in the development of software products for sale through Herbminers (the “**Software Development Business**”). In contrast, we do not engage in and have no intention of engaging in the development of software for sale in the future. Given the different nature of business between the businesses operated by us and the Software Development Business, our Directors are of the view that it is not beneficial for us to include the Software Development Business as part of our business as the Software Development Business is not consistent with our overall strategy to maintain and further strengthen our market position as a leading Hong Kong-based Chinese medicine company engaged in the research and development, production, marketing and sale of CCMG products.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In view of the foregoing, (i) the Excluded Group's Research and Development Business, Plantation Business and Software Development Business were not included in our Group; and (ii) our Directors are of the view that the Excluded Group's Research and Development Business, Plantation Business and Software Development Business and our Group's business are not in competition. Pursuant to the Deed of Non-Competition, details of which are set out in the paragraph headed "— Non-Competition Undertakings" in this section, each of our Controlling Shareholders has undertaken not to engage in activities that compete with our core business.

NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders has undertaken to us in the Deed of Non-Competition that it/he/she will not, and will procure its/his/her close associates (other than members of our Group) not to directly or indirectly be involved in or undertake any business (other than our business) that directly or indirectly competes, or may compete, with our business or undertaking (the "**Restricted Activity**"), or hold shares or interest in any companies or business that compete directly or indirectly with our business from time to time except where our Controlling Shareholders hold less than 5% of the total issued share capital of any company (whose shares are listed on the Stock Exchange or any other stock exchange) which is engaged in any business that is or may be in competition with any business engaged by any member of our Group and they do not control 10% or more of the composition of the board of directors of such company.

Further, each of our Controlling Shareholders has undertaken to procure that if any new business investment or other business opportunity related to the Restricted Activity (the "**Competing Business Opportunity**") is identified by or made available to him/her/it or any of his/her/its close associates, he/she/it shall, and shall procure that his/her/its close associates shall, refer such Competing Business Opportunity to our Company on a timely basis and in the following manner:

- refer the Competing Business Opportunity to our Company by giving written notice ("**Offer Notice**") to our Company of such Competing Business Opportunity within 30 business days of identifying the target company (if relevant) and the nature of the Competing Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for our Company to consider whether to pursue such Competing Business Opportunity;
- upon receiving the Offer Notice, our Company shall seek approval from our Board or a board committee (in each case comprising only of independent non-executive Directors) which has no interest in the Competing Business Opportunity (the "**Independent Board**") as to whether to pursue or decline the Competing Business Opportunity (any Director who has actual or potential interest in the Competing Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not be counted in the quorum for, any meeting convened to consider such Competing Business Opportunity);
- the Independent Board shall consider the financial impact of pursuing the Competing Business Opportunity offered, whether the nature of the Competing Business Opportunity is consistent with our Group's strategies and development plans and the general market

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

conditions of our business. If appropriate, the Independent Board may appoint independent financial advisers and legal advisers to assist in the decision-making process in relation to such Competing Business Opportunity;

- the Independent Board shall, within 30 business days of receipt of the written notice referred above, inform our Controlling Shareholders in writing on behalf of our Company its decision whether to pursue or decline the Competing Business Opportunity;
- our Controlling Shareholders shall be entitled but not obliged to pursue such Competing Business Opportunity if he/she/it has received a notice from the Independent Board declining such Competing Business Opportunity or if the Independent Board failed to respond within such 30 days' period mentioned above; and
- if there is any material change in the nature, terms or conditions of such Competing Business Opportunity pursued by our Controlling Shareholders, he/she/it shall refer such revised Competing Business Opportunity to our Company as if it were a new Competing Business Opportunity.

In order to promote good corporate governance practices and to improve transparency, the Deed of Non-Competition includes the following provisions:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;
- each of our Controlling Shareholders has undertaken to us that it/he/she will provide all information necessary for the annual review by the independent non-executive Directors for the enforcement of the Deed of Non-Competition;
- we will disclose the review by our independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-Competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules;
- we will disclose the decisions on matters reviewed by the independent non-executive Directors (including the reasons for not taking up the Competing Business Opportunity referred to our Company) either through our annual report or by way of announcement to the public;
- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-Competition in accordance with the principle of voluntary disclosure in the corporate governance report; and
- in the event that any of our Directors and/or their respective close associates have material interests in any matter to be deliberated by our Board in relation to the 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.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The Deed of Non-Competition will lapse automatically if our Controlling Shareholders and their close associates cease to hold, whether directly or indirectly, 30% of our Shares or our Shares cease to be listed on the Stock Exchange.

HEALTHCARE SUPPLEMENTS BUSINESS OPERATED BY MR. CHAN'S SISTER

Mr. Chan's sister, Ms. Helen Hei Ling Chan ("**Ms. Chan**"), is currently operating a business which is engaged in the production and marketing of health supplements, such as vitamins, western health supplements and Chinese healthcare products. Our Directors are of the view that there is a clear delineation and no material competition between the business operated by Ms. Chan and the business of our Group as (i) the business operated by Ms. Chan is owned, financed, managed and operated independently from our Controlling Shareholders and our Group; (ii) our Group is owned, financed, managed and operated independently from Ms. Chan; (iii) each of our Directors and senior management has confirmed that he/she does not have any role, duty or involvement in the business operated by Ms. Chan; (iv) the mainstream of our revenue is derived from our CCMG product segment, a business segment which, to the best of our Directors' knowledge, Ms. Chan does not currently engage in; and (v) there is an overlap in our Chinese healthcare products with the business operated by Ms. Chan but the overlapped products only accounted for approximately 10.9% of our total revenue for the year ended 31 December 2014.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

We believe that our Group is capable of carrying on its business independently of, and at arm's length from the Excluded Business, our Controlling Shareholders and their respective close associates (other than our Group) after Listing for the following reasons:

Management Independence

Our Board currently comprises four executive Directors, one non-executive Director and four independent non-executive Directors. Other than Mr. Chan, Ms. Man, Dr. Tsoi Kam Biu, Alvin and Mr. Chan Kin Man, Eddie, none of our other Directors holds any directorship or senior management role in the Excluded Group. Mr. Chan is a director for most of the members of the Excluded Group while Ms. Man, Dr. Tsoi Kam Biu, Alvin and Mr. Chan Kin Man, Eddie are only non-executive directors with no executive function of certain members of the Excluded Group. Each of Mr. Chan, Ms. Man, Dr. Tsoi Kam Biu, Alvin and Mr. Chan Kin Man, Eddie do not expect to devote substantial time in the management of the Excluded Group going forward save for attending from time to time the board meetings of members of the Excluded Group. It is expected Mr. Chan, Ms. Man and Dr. Tsoi Kam Biu, Alvin will spend substantially all of his/her working time in the operations of our Group after Listing.

In the event that each of Mr. Chan, Ms. Man, Dr. Tsoi Kam Biu, Alvin and Mr. Chan Kin Man, Eddie is required to absent himself/herself from any board meeting on any matter which may give rise to a potential conflict of interest with the Excluded Group, our remaining Directors will have sufficient expertise and experience to fully consider any such matter. Notwithstanding the directorship of Mr. Chan, Ms. Man, Dr. Tsoi Kam Biu, Alvin and Mr. Chan Kin Man, Eddie in certain members

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

of the Excluded Group, our Directors, including the independent non-executive Directors, are of the view that our Board is able to manage our business on a full time basis independently from the Excluded Group for the following reasons:

- (a) none of the business undertaken or carried on by the Excluded Group competes with our core business, and there are adequate corporate governance measures in place to manage the existing and potential conflicts of interest. Therefore, the dual roles assumed by Mr. Chan, Ms. Man, Dr. Tsoi Kam Biu, Alvin and Mr. Chan Kin Man, Eddie will not affect the requisite degree of impartiality of our executive Directors in discharging their fiduciary duties owed to our Company;
- (b) we have four independent non-executive Directors, and certain matters of our Group, including matters referred to in the Deed of Non-Competition, details of which are set out in the paragraph headed “— Non-Competition Undertakings” above, must always be referred to the independent non-executive Directors for review. This helps to enhance the independence of our management from that of the Excluded Group;
- (c) in the event of a conflict of interest, Mr. Chan, Ms. Man, Dr. Tsoi Kam Biu, Alvin and Mr. Chan Kin Man, Eddie will abstain from voting, will not be present at the relevant Board meetings and will be excluded from deliberation by our Board. Hence, Mr. Chan, Ms. Man, Dr. Tsoi Kam Biu, Alvin and Mr. Chan Kin Man, Eddie would not be able to influence our Board in making decisions on matters in which he/she is, or may be, interested. We believe all of our Directors, including the independent non-executive Directors, have the requisite qualifications, integrity and experience to maintain an effective board and observe their fiduciary duties in the event of a conflict of interest. Please refer to the section headed “Directors and Senior Management — Board of Directors” in this prospectus for a summary of the relevant experience and qualifications of our Directors; and
- (d) save as disclosed herein, our daily operations will be managed by our senior management team, none of whom holds any senior managerial position or directorship position within the Excluded Group.

Operational Independence

We are independent from our Controlling Shareholders as we do not share operational capabilities with our Controlling Shareholders, and we have independent access to suppliers and customers, as well as an independent management team to handle our day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently from our Controlling Shareholders.

Although we entered into certain continuing connected transactions for our Company which will continue after Listing, such transactions have been entered into and will continue to be entered into on normal commercial terms and in the ordinary course of business of our Company. The details of the connected transactions that will continue after Listing are set out in the section headed “Connected Transactions” in this prospectus.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Purchase of raw Chinese herbs from the Excluded Group

In September 2014, certain members of the Excluded Group formed a joint venture with the ultimate owners of two of our Independent Third Party raw Chinese herbs suppliers in relation to the plantation and sale of raw Chinese herbs in the PRC through two subsidiaries of Gold Sparkle Plantation. Prior to the establishment of the joint venture, we purchased raw Chinese herbs from the Suppliers and for the years ended 31 December 2012, 2013 and 2014, the total purchase of raw Chinese herbs by us from the Suppliers amounted to approximately HK\$0.8 million, HK\$0.7 million and HK\$6.6 million, respectively. There were no historical transaction amounts for the three years ended 31 December 2012, 2013 and 2014 between our Group and Gold Sparkle Plantation as Gold Sparkle Plantation had not commenced its operation during the Track Record Period. Please refer to the paragraph headed “Delineation of Businesses — Plantation of Raw Chinese Herbs Business of the Excluded Group” in this section for further details on the joint venture arrangement.

Given the high quality of the raw Chinese herbs supplied by the Suppliers, familiarity with our specifications, standards and requirements and the fact that the Suppliers will continue to manage the operation of the joint venture, we believe that it would be in our interest to purchase raw Chinese herbs from Gold Sparkle Plantation. As such, we entered into a master purchase agreement with Gold Sparkle Plantation, pursuant to which our Group agreed to purchase raw Chinese herbs from Gold Sparkle Plantation or its subsidiaries for a term commencing from 1 January 2015 to 31 December 2017.

We estimate that the maximum amount payable to Gold Sparkle Plantation for the three years ending 31 December 2015, 2016 and 2017 will not exceed HK\$4.0 million, HK\$9.6 million and HK\$11.5 million, respectively, representing approximately 3.0%, 7.1% and 8.6% of our total cost of sales for the year ended 31 December 2014, respectively.

As we have access to other independent suppliers and the raw Chinese herbs to be provided by Gold Sparkle Plantation are generally and widely available in the market at comparable market prices, we do not consider that the sale of raw Chinese herbs by Gold Sparkle Plantation to our Group has any material impact on the independence of the operations of our Group. Please refer to the section “Connected Transactions” in this prospectus for further details.

Purchase of Software and Technical Support from the Excluded Group

We purchased certain software licenses for our Group’s CMCMS and the related technical support for such software from the Excluded Group. For the years ended 31 December 2012, 2013 and 2014, the total purchase of software licenses and technical support for such software by our Group from Herbminers amounted to approximately HK\$0.6 million, HK\$0.4 million and HK\$0.4 million, respectively, representing approximately 61.3%, 36.6% and 40.0% of Herbminers’ total revenue for the same periods, respectively.

Our CMCMS is compatible with other software developed by Independent Third Party suppliers and is not solely dependent on the software and the related technical support provided to us by Herbminers. Some of our customers purchase our CMCMS without the software supplied by Herbminers and will apply other software developed by themselves or purchased from other

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Independent Third Party suppliers to our CMCMS. As we have access to other independent third party suppliers offering the same or comparable products and technical support, we do not consider that the sale of software licenses and technical support by the Excluded Group to our Group has any material impact on the independence of the operations of our Group. Please refer to the section “Connected Transactions” in this prospectus for further details.

Financial Independence

All loans, advances and balances due from our Controlling Shareholders and their respective close associates and all loans, advances and balances due to our Controlling Shareholders will be repaid before Listing. All share pledges and guarantees provided by our Controlling Shareholders and their respective close associates on our Group’s borrowing will also be fully released upon Listing. Accordingly, we believe we are able to maintain financial independence from our Controlling Shareholders and their respective close associates. In addition, we have our own internal control systems, accounting and finance department, independent treasury function for cash receipts and payment and independent access to third-party financing.

COMMUNITY SERVICES BY OUR CONTROLLING SHAREHOLDERS

Mr. Chan and Ms. Man played active roles in advising various committees in five public bodies, which are academic and charity organisations related to Chinese medicine, and are also our customers from 2000 to 2013 and from 2004 to the Latest Practicable Date, respectively.

During the Track Record Period, we have submitted tenders and entered into contracts with the Relevant Organisations in compliance with the relevant mechanisms and requirements of the Relevant Organisations, and Mr. Chan and Ms. Man were not involved in the decision making process when the contracts involving us were considered by the Relevant Organisations. In addition, Mr. Chan and Ms. Man had disclosed their interests and abstained from expressing opinion and/or voting at the relevant meetings in which they had potential conflict of interests, in compliance with the relevant requirements of the Relevant Organisations on disclosure of interests and abstention. Mr. Chan and Ms. Man were not involved in the day-to-day management and operation of any of the Relevant Organisations. During the Track Record Period, some of the roles held by Ms. Man in the Relevant Organisations involved approving tenders of a value within a specific range while other roles held by Mr. Chan and Ms. Man were purely advisory in nature which did not involve in approving tenders or supply contracts. During the Track Record Period and up to the Latest Practicable Date, we had six tenders or contracts approved by the Relevant Organisations during which Mr. Chan and Ms. Man held positions in such Relevant Organisations. However, such tenders and contracts were approved by boards, committees or the management teams of the Relevant Organisations in which Mr. Chan and Ms. Man did not hold any roles or positions as (i) the roles and positions held by Mr. Chan and Ms. Man in the Relevant Organisations were purely advisory nature with respect to two of the tenders or contracts; and (ii) the value of the remaining four tenders or contracts that we submitted to the Relevant Organisations were not within the relevant approval limits of or not ordinarily handled by the board or committees of the Relevant Organisations which Mr. Chan and Ms. Man held positions in at the time.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In view of the foregoing, our Directors are of the view that the tenders involving us were conducted properly and Mr. Chan and Ms. Man were not involved in the decision making process concerning our tenders and contracts despite their positions at the Relevant Organisations, and the Sole Sponsor has no reason to doubt that such tenders were not conducted properly or that Mr. Chan and Ms. Man were involved in the decision making process concerning such tenders.

In addition to serving on the Relevant Organisations, with a view to fulfilling their corporate social responsibilities and promoting the modernisation and scientific development of Chinese medicine in Hong Kong, we, as well as Mr. Chan and Ms. Man, who have always been supportive of such vision and charitable work, have made donations before and during the Track Record Period to various institutions and non-profit organisations, of which some are also our customers. Our Directors are of the view that we have not been given any preferential treatment during the tender process as a result of such donations as a material portion of the donations was to meet the mandatory obligations of Mr. Chan and Ms. Man as directors, members or advisers of certain Relevant Organisations to donate and raise funds for such Relevant Organisations each year. Apart from making such donations to non-profit organisations which are our customers, during the Track Record Period, other donations were also made by Mr. Chan and Ms. Man through us for charitable purposes from time to time to other charitable organisations and schools which are not our customers.

Our Directors are of the view, to which the Sole Sponsor concurs, that we have independent access to the Relevant Organisations and are able to secure orders from them without relying on the relationship between Mr. Chan and Ms. Man and the Relevant Organisations as we managed to renew contracts with, and secure new purchase orders from, certain Relevant Organisations and there was no significant adverse change in our sales to such Relevant Organisations, subsequent to the end of the term of Mr. Chan's and Ms. Man's roles in such Relevant Organisations since March 2013 and April 2014, respectively. Since March 2013, Mr. Chan stepped down and ceased to have any role in the Relevant Organisations in accordance with the policies of such Relevant Organisations which require Mr. Chan to step down from such role at the end of the stipulated term. Since April 2014, Ms. Man stepped down and ceased to hold any role in certain Relevant Organisations in accordance with the policies of such Relevant Organisations, which requires Ms. Man to step down from such role at the end of the stipulated term and Ms. Man still held certain roles in three of the Relevant Organisations as at the Latest Practicable Date. Notwithstanding Ms. Man's current roles with such Relevant Organisations, our Directors are of the view, to which the Sole Sponsor concurs, that we have independent access to the Relevant Organisations and are able to secure orders from them without relying on the relationship between Ms. Man and the Relevant Organisations as she has complied with the relevant requirements of the Relevant Organisations to disclose her interests and abstain from expressing opinion and/or voting at the relevant meetings in which she has potential conflict of interests, and all of our tenders have been submitted in compliance with the relevant mechanisms and requirements of the Relevant Organisations, without Ms. Man's involvement in the decision-making process nor us relying on her relationship to influence the Relevant Organisations' decision whether to approve our tenders or contracts.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

For the years ended 31 December 2012, 2013 and 2014, (i) our total sales to the Relevant Organisations were approximately HK\$50.5 million, HK\$57.1 million and HK\$62.2 million, respectively, representing approximately 17.5%, 16.7% and 17.0% of our total revenue for the same periods, respectively; and (ii) our total sales to the three Relevant Organisations which Ms. Man still held positions in as at the Latest Practicable Date were approximately HK\$21.0 million, HK\$24.6 million and HK\$27.6 million, respectively, representing approximately 7.3%, 7.2% and 7.5% of our total revenue for the same periods, respectively.

CORPORATE GOVERNANCE MEASURES

Our Controlling Shareholders and their respective close associates may not compete with us as provided in the Deed of Non-Competition. Each of our Controlling Shareholders has confirmed that he/she/it fully comprehends his/her/its obligations to act in our Shareholders' best interests as a whole. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (a) as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates have a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings in which such Director or his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- (c) we are committed to include a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors in our Board. We have appointed four independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial, external opinion to protect the interests of our public Shareholders. Details of our independent non-executive Directors are set out in the subsection headed "Directors and Senior Management" — Board of Directors — Independent non-executive Directors" in this prospectus; and
- (d) we have appointed Southwest Securities (HK) Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

CONNECTED TRANSACTIONS

OVERVIEW

Pursuant to Chapter 14A of the Listing Rules, our Directors, substantial shareholders and chief executive officer or those of our subsidiaries, any of their associates and any person who was our Director or a director of our subsidiaries within 12 months preceding the Listing Date will become a connected person of our Company upon the Listing. Upon the Listing, our transactions with such connected persons will constitute connected transactions under Chapter 14A of the Listing Rules.

Our Directors confirm that the following transactions which will continue after Listing will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

(A) Continuing connected transactions which are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements

1. Master Software and Technical Support Purchase Agreement

On 18 June 2015, our Company entered into a software and technical support purchase agreement (the “**Master Software and Technical Support Purchase Agreement**”) with Herbminers, pursuant to which Herbminers agreed to sell certain software licenses to our Group to be used and for our Group’s CMCMS and provide technical support for such software. The Master Software and Technical Support Purchase Agreement has a term of three years commencing from 1 January 2015 to 31 December 2017. For the years ended 31 December 2012, 2013 and 2014, the total purchase of software licenses and the technical support for such software by our Group from Herbminers amounted to approximately HK\$0.6 million, HK\$0.4 million and HK\$0.4 million, respectively.

Our Directors estimate that the maximum transaction amount under the Master Software and Technical Support Purchase Agreement will not exceed HK\$1.1 million for each of the years ending 31 December 2015, 2016 and 2017. Such estimate is based on (a) the projected demand of the software licenses that our Group would purchase from Herbminers for our Group’s CMCMS in the coming three years; (b) the prevailing market price of such software licenses in the open market; and (c) the historical transaction amounts for the three years ended 31 December 2012, 2013 and 2014. The price for the software licenses and technical support to be purchased from Herbminers under the Master Software and Technical Support Purchase Agreement was determined with reference to the price at which comparable types of software licenses and technical support that are sold by independent suppliers to our Group under normal commercial terms in the ordinary course of its business and such price shall be no less favourable to our Group than is available from independent suppliers. In considering whether to purchase from Herbminers, our Group will seek quotations from at least two independent third party suppliers offering the same or comparable products and technical support. Our Group will purchase the software licenses and technical support from Herbminers if the price and quality of the products and technical support offered are comparable to or more favourable to our Group than those offered by independent third party suppliers.

CONNECTED TRANSACTIONS

Herbminers is ultimately owned as to 80% by Mr. Chan, one of our executive Directors and Controlling Shareholders. As such, Herbminers is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transaction under the Master Software and Technical Support Purchase Agreement will constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules upon Listing.

The Master Software and Technical Support Purchase Agreement is a framework agreement which provides the mechanism for the operation of the connected transaction described therein. It is envisaged that from time to time and as required, individual purchase orders may be required to be entered into between our Group and Herbminers. Each individual purchase and service order will set out the relevant software and service purchased by our Group from Herbminers, the purchase price of the software or service purchased by our Group and any detailed specifications which may be relevant to those purchases. The individual purchase and service orders may only contain provisions which are in all material respect consistent with the binding principles, guidelines, terms and conditions set out in the Master Software and Technical Support Purchase Agreement. As the individual purchase and service orders are simply further elaborations on the purchases contemplated by the Master Software and Technical Support Purchase Agreement, they do not constitute new categories of connected transactions as far as Listing Rules are concerned.

Since each of the percentage ratios (other than the profits ratio) for the Master Software and Technical Support Purchase Agreement is less than 5% and the annual consideration is less than HK\$3,000,000, the transaction under the Master Software and Technical Support Purchase Agreement is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements applicable under Chapter 14A of the Listing Rules as it falls within the de minimis threshold under Rule 14A.76(1) of the Listing Rules.

2. Master Services Agreement

On 18 June 2015, our Company entered into a master company secretarial and tax filing services agreement (“**Master Services Agreement**”) with CWCC Co. Limited (“**CWCC**”), pursuant to which our Company agreed to engage CWCC or its associate companies to provide company secretarial services to our offshore companies and tax filing services to our Hong Kong companies for a term commencing from 1 January 2015 to 31 December 2017. For the years ended 31 December 2012, 2013 and 2014, the total fee our Group paid to CWCC or its associate companies for the company secretarial and tax filing services amounted to approximately HK\$292,000, HK\$182,000 and HK\$273,000, respectively.

Our Directors estimate that the maximum transaction amount under the Master Services Agreement for the years ending 31 December 2015, 2016 and 2017 will not exceed HK\$0.5 million, HK\$0.7 million and HK\$1.0 million, respectively. Such estimate is based on (a) the historical transaction amounts for the years ended 31 December 2012, 2013 and 2014; (b) the prevailing market price of such company secretarial and tax filing services in the open market; and (c) the estimated number of clinics to be opened by our Group, in line with our Group's expansion plan, in the next three years. The fee for the company secretarial and tax filing services to be provided by CWCC or its associate companies to our Group was determined with reference to the prevailing market rates for similar services provided by independent service providers in the open market.

CONNECTED TRANSACTIONS

CWCC is owned as to 30% by Mr. Chan Kin Man, Eddie, our non-executive Director. As such, CWCC is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transaction under the Master Services Agreement will constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules upon Listing.

The Master Services Agreement is a framework agreement which provides the mechanism for the operation of the connected transaction described therein. It is envisaged that from time to time and as required, individual retainers may be required to be entered into between our Group and CWCC or its associate companies. Each individual retainer will set out the relevant company secretarial and/or tax filing services to be provided by CWCC or its associate companies to our Group, the fee for the company secretarial and/or tax filing services to be paid by our Group and any detailed specifications which may be relevant to those retainers. The individual retainers may only contain provisions which are in all material respects consistent with the binding principles, guidelines, terms and conditions set out in the Master Services Agreement. As the individual retainers are simply further elaborations on the retainers contemplated by the Master Services Agreement, they do not constitute new categories of connected transactions as far as Listing Rules are concerned.

Since each of the percentage ratios (other than the profits ratio) for the Master Services Agreement is less than 5% and the annual consideration is less than HK\$3,000,000, the transaction under the Master Services Agreement is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements applicable under Chapter 14A of the Listing Rules as it falls within the de minimis threshold under Rule 14A.76(1) of the Listing Rules.

3. Master Company Secretarial Service Agreement

On 18 June 2015, our Company entered into a master company secretarial services agreement (“**Master Company Secretarial Services Agreement**”) with Edtoma Secretarial Services Limited (“**Edtoma**”), pursuant to which our Company agreed to engage Edtoma to provide company secretarial services to our Hong Kong companies for a term commencing from 1 January 2015 to 31 December 2017. For the years ended 31 December 2012, 2013 and 2014, the total fee our Group paid to Edtoma for the company secretarial services amounted to approximately HK\$73,000, HK\$90,000 and HK\$342,000, respectively.

Our Directors estimate that the maximum transaction amount under the Master Company Secretarial Services Agreement for the years ending 31 December 2015, 2016 and 2017 will not exceed HK\$1.1 million, HK\$1.3 million and HK\$1.5 million, respectively. Such estimate is based on (a) the historical transaction amounts for the years ended 31 December 2012, 2013 and 2014; (b) the prevailing market price of such company secretarial services in the open market; and (c) the estimated number of clinics to be opened by our Group, in line with our Group's expansion plan, in the next three years. The fee for the company secretarial services to be provided by Edtoma to our Group was determined with reference to the prevailing market rates for similar services provided by independent service providers in the open market.

CONNECTED TRANSACTIONS

Edtoma is owned as to 30% by Mr. Chan Kin Man, Eddie, our non-executive Director. As such, Edtoma is a connected person of our Company for the purpose of the Listing Rules. Accordingly, the transaction under the Master Company Secretarial Services Agreement will constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules upon Listing.

The Master Company Secretarial Services Agreement is a framework agreement which provides the mechanism for the operation of the connected transaction described therein. It is envisaged that from time to time and as required, individual retainers may be required to be entered into between our Group and Edtoma. Each individual retainer will set out the relevant company secretarial services to be provided by Edtoma to our Group, the fee for the company secretarial services to be paid by our Group and any detailed specifications which may be relevant to those retainers. The individual retainers may only contain provisions which are in all material respect consistent with the binding principles, guidelines, terms and conditions set out in the Master Company Secretarial Services Agreement. As the individual retainers are simply further elaborations on the retainers contemplated by the Master Company Secretarial Services Agreement, they do not constitute new categories of connected transactions as far as Listing Rules are concerned.

Since each of the percentage ratios (other than the profits ratio) for the Master Company Secretarial Services Agreement is less than 5% and the annual consideration is less than HK\$3,000,000, the transaction under the Master Company Secretarial Services Agreement is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements applicable under Chapter 14A of the Listing Rules as it falls within the de minimis threshold under Rule 14A.76(1) of the Listing Rules.

(B) Continuing connected transactions which are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements

4. Master Purchase Agreement

On 18 June 2015, our Company entered into a master purchase agreement (the “**Master Purchase Agreement**”) with Gold Sparkle Plantation, pursuant to which our Group agreed to purchase raw Chinese herbs from Gold Sparkle Plantation or its subsidiaries for a term commencing from 1 January 2015 to 31 December 2017.

There were no historical transaction amounts for the three years ended 31 December 2012, 2013 and 2014 between our Group and Gold Sparkle Plantation as Gold Sparkle Plantation had not commenced its operation during the Track Record Period and up to the Latest Practicable Date. Our Directors estimate that the maximum transaction amount under the Master Purchase Agreement will not exceed HK\$4.0 million, HK\$9.6 million and HK\$11.5 million for the three years ending 31 December 2015, 2016 and 2017, respectively. Such estimate is based on (a) our purchase amount with the Suppliers for the year ended 31 December 2014; (b) the expected commencement of the operation of Gold Sparkle Plantation in or around July 2015; (c) the projected demand for raw Chinese herbs that our Group would purchase from Gold Sparkle Plantation for the production of our CCMG products and Chinese healthcare products in the coming three years; (d) the prevailing market rates of such raw Chinese herbs in the open market in the PRC; (e) the expected growth in the demand for our CCMG products and Chinese healthcare products, taking into account the launch of our Group's

CONNECTED TRANSACTIONS

new products and the resulting future increases in the purchases to be made by our Group from Gold Sparkle Plantation for our production; and (f) the maximum transaction amounts for the year ending 31 December 2016 and 2017 are also determined based on the annualised maximum transaction amount for the year ended 31 December 2015, which covers our expected purchase of raw Chinese herbs from Gold Sparkle Plantation from July 2015 to December 2015. The increase in the estimated maximum amount of purchase for the three years ending 31 December 2015, 2016 and 2017 are due to (a) the expected commencement of the operation of Gold Sparkle Plantation in or around July 2015; (b) the increase of our production capacity of CCMG products and Chinese healthcare products. Our production volume is expected to increase from 696 tonnes of CCMG products and Chinese herbal extracts for the year ended 31 December 2014 to 2,000 tonnes of CCMG products by 2017; (c) the launch of new products by our Group in the next three years; (d) the increase in the volume of raw Chinese herbs to be purchased from Gold Sparkle Plantation by our Group to accommodate the expected increase in our production volume driven by the expected increase in demand for our products as a result of the expected growth in the market sizes of the Chinese herbal medicine market and the Chinese healthcare product market; and (e) a reasonable increment of the purchase price to be charged by Gold Sparkle Plantation taking into account the expected inflation rate for the three years ending 31 December 2017.

As part of a joint venture arrangement, Gold Sparkle, a company wholly owned by Mr. Chan, will hold 63.16% interest in Gold Sparkle Plantation and the remaining 36.84% interest will be held by the ultimate owners of the Suppliers. Gold Sparkle and the ultimate owners of the Suppliers are in the process of completing the acquisition of shares in Gold Sparkle Plantation and the relevant registration for such transfer with the Foreign Exchange Administration Bureau of Guizhou Province* (國家外匯管理部門貴州省分局). As such, as at the Latest Practicable Date, Gold Sparkle Plantation was wholly owned by Gold Sparkle and is a connected person of our Company for the purpose of the Listing.

During the Track Record Period and up to the Latest Practicable Date, the Suppliers supplied raw Chinese herbs to our Group as well as other customers. We purchased raw Chinese herbs from the Suppliers and for the years ended 31 December 2012, 2013 and 2014, the total purchase of raw Chinese herbs by us from the Suppliers amounted to approximately HK\$0.8 million, HK\$0.7 million and HK\$6.6 million, respectively. The increase in our purchase of raw Chinese herbs from the Suppliers from HK\$0.7 million for the year ended 31 December 2013 to HK\$6.6 million for the year ended 31 December 2014 was primarily due to (i) the increase in our Group's total purchase of raw Chinese herbs materials to cater the increase in demand of our products; (ii) we only purchased raw Chinese herbs from one of the Suppliers in the year ended 31 December 2013 and we purchased raw Chinese herbs from both Suppliers in the year ended 31 December 2014; and (iii) the increase in the volume of raw Chinese herbs we purchased from the Suppliers due to its high quality. Our estimated maximum amount of purchase from Gold Sparkle Plantation for the years ending 31 December 2015, 2016 and 2017 under the Master Purchase Agreement are based on, among other things, our historical purchase amount from the Suppliers for the year ended 31 December 2014. We plan to cease our purchases of raw Chinese herbs from the Suppliers when Gold Sparkle Plantation commences its operation which is expected to commence in or around July 2015 after the transfer of the Suppliers' plantation and their raw Chinese herbs inventory to Gold Sparkle Plantation or its subsidiaries is completed. As at the Latest Practicable Date, the parties to the joint venture were at the final stage of negotiation of the principal terms of the transfer of the Supplier's plantation and inventory to Gold

CONNECTED TRANSACTIONS

Sparkle Plantation. It is expected that a definitive agreement will be signed in or around June 2015 and such transfer can be completed in or around July 2015. Gold Sparkle Plantation can commence its business in the sale of raw Chinese herbs immediately after completion of such transfer.

Our Directors believe that the procurement of raw Chinese herbs from Gold Sparkle Plantation would be more beneficial to our Group as compared to procuring from independent third parties for the following reasons:

- (i) our purchase price of raw Chinese herbs from Gold Sparkle Plantation will be subject to our internal tendering process as described in the paragraph below;
- (ii) the joint venture will be managed and operated by the Suppliers and the Suppliers are familiar with our Group's specifications, standards and requirements;
- (iii) our Group has confidence in the quality of the raw Chinese herbs supplied by Gold Sparkle Plantation based on our previous dealings with the Suppliers; and
- (iv) our Directors consider that it is crucial for our Group to maintain the stability in supply and quality of raw Chinese herbs for our existing and future production needs. In view of our past purchasing experience with the Suppliers and our understanding of the Suppliers' past and future production capacity after our discussion with the Suppliers, our Directors are of the view that Gold Sparkle Plantation can effectively fulfil our demand for raw Chinese herbs under the Master Purchase Agreement and our requirements of supply stability as well as product quality.

Following the commencement of its operation, Gold Sparkle Plantation will supply raw Chinese herbs to us as well as third party customers. We will not procure the raw Chinese herbs from Gold Sparkle Plantation on an exclusive basis and will continue to procure the same types of raw Chinese herbs from our current or other independent third party suppliers. Our procurement of raw Chinese herbs from Gold Sparkle Plantation will also be subject to the same internal procurement policy we apply to our third party suppliers including our tendering process. For example, our procurement with Gold Sparkle Plantation will also be subject to our formal price tendering process held once or twice a month depending on our monthly production needs and our quality control department will also conduct sample tests on the raw Chinese herbs from Gold Sparkle Plantation to ensure that their raw Chinese herbs meet our specifications, stringent quality standards and our technological requirements for production. For further details our procurement process, please refer to the section headed "Business — Procurement and Suppliers" in this prospectus.

We determined our annual cap for the year ending 31 December 2015, which covers our expected purchase of raw Chinese herbs from Gold Sparkle Plantation from July 2015 to December 2015 (i) with reference to our total purchase amount in 2014 with the Suppliers; and (ii) based on our discussion with the management team of Gold Sparkle Plantation in respect of our future procurement plan, taking into account the volume of raw Chinese herbs that we require to meet our production plan from July 2015 to December 2015 and the availability of the raw Chinese herbs that we intend to procure. We will also procure the types of raw Chinese herbs to be supplied to us by Gold Sparkle Plantation from other third party suppliers.

CONNECTED TRANSACTIONS

Our Group is capable of carrying on its business independently of Gold Sparkle Plantation as it can easily procure the raw Chinese herbs supplied by Gold Sparkle Plantation from independent third party suppliers. Our Group currently has independent access to suppliers and the raw Chinese herbs supplied by Gold Sparkle Plantation are generally and widely available in the market at comparable market prices and quality.

The Master Purchase Agreement is a framework agreement which provides the mechanism for the operation of the connected transactions described therein. It is envisaged that from time to time and as required, individual purchase orders may be required to be entered into between our Group and Gold Sparkle Plantation. Each individual purchase order will set out the relevant raw Chinese herbs purchased by our Group from Gold Sparkle Plantation, the purchase price of the raw Chinese herbs purchased by our Group and any detailed specifications which may be relevant to those purchases. The individual purchase orders may only contain provisions which are in all material respects consistent with the binding principles, guidelines, terms and conditions set out in the Master Purchase Agreement. As the individual purchase orders are simply further elaborations on the purchases as contemplated by the Master Purchase Agreement, they do not constitute new categories of connected transactions as far as Listing Rules are concerned.

Since each of the applicable percentage ratios (other than the profits ratio) for the Master Purchase Agreement is expected to be more than 5% on an annual basis, the transactions under the Master Purchase Agreement are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

WAIVERS

The transactions described in paragraphs 1 to 3 above (paragraphs 2 and 3 on an aggregate basis) constitute exempt continuing connected transactions under the Listing Rules.

The transaction described in paragraph 4 above constitutes non-exempt continuing connected transactions under the Listing Rules. The applicable percentage ratios as defined in Rule 14.07 of the Listing Rules and calculated with reference to the proposed annual caps for each of the years shown above are more than 5% on an annual basis. As such, the non-exempt continuing connected transaction in paragraph 4 above would be subject to reporting, annual review, announcement, circular and the independent shareholders' approval requirements under the Listing Rules.

We have applied for, and the Stock Exchange has granted us, waivers from strict compliance with the announcement, (where applicable) circular and independent shareholders' approval requirements of the Listing Rules in respect of the continuing connected transaction as disclosed in paragraph 4 subject to the aggregate value of the non-exempt continuing connected transaction for each financial year not exceeding the relevant annual cap amount set forth in the respective caps stated above.

CONNECTED TRANSACTIONS

DIRECTORS' VIEW

Our Directors, including the independent non-executive Directors, consider that all the continuing connected transactions above are conducted on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole and are in the ordinary and usual course of our business. Our Directors, including the independent non-executive Directors, are also of the view that the annual caps of the non-exempt continuing connected transaction above are fair and reasonable and in the interest of our Shareholders, as a whole.

SOLE SPONSOR'S VIEW

The Sole Sponsor is of the view that the continuing connected transaction as disclosed in paragraph 4 and its annual caps are fair and reasonable, and that such transaction has been entered into in the ordinary and usual course of our business, on normal commercial terms and are fair and reasonable and in the interest of our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board currently consists of nine Directors, comprising four executive Directors, one non-executive Director and four independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions and for the increase or reduction of our registered capital as well as exercising other powers, functions and duties as conferred by our Memorandum and Articles of Association. We have entered into service contracts with each of our executive Directors. We have also entered into letters of appointment with each of our non-executive Director and independent non-executive Directors.

The table below shows certain information in respect of members of our Board and senior management:

Members of our Board

Name	Age	Date of joining our Group	Date of appointment as Director	Existing Position in our Company	Roles and Responsibilities
Mr. Chan Yu Ling, Abraham (陳宇齡) (Note).....	54	4 May 1998	2 December 2011	Chairman, chief executive officer and executive Director	Responsible for the overall strategic planning and operations of our Group's business, the management of our research development and technological development functions
Dr. Tsoi Kam Biu, Alvin (蔡鑑彪)	58	4 May 1998	2 December 2011	Vice chairman and executive Director	Responsible for the overall strategic planning of the businesses of our Group
Mr. Leung Chin Man (梁展文)	69	17 June 2013	22 April 2014	Executive Director and group managing director	Responsible for the management and coordination of the day-to-day business operation
Ms. Man Yee Wai, Viola (文綺慧) (Note).....	49	4 May 1998	2 December 2011	Executive Director	Responsible for the overall strategic planning of the businesses of our Group
Mr. Chan Kin Man, Eddie (陳健文)	54	22 May 2011	2 December 2011	Non-executive Director	Responsible for the overall corporate strategies and management directions of our Group

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group	Date of appointment as Director	Existing Position in our Company	Roles and Responsibilities
Dr. Chan Kin Keung, Eugene (陳建強)	51	12 June 2015	12 June 2015	Independent non-executive Director	Responsible for supervising and providing independent judgment to our Board
Mr. Ho Kwok Wah, George (何國華)	57	12 June 2015	12 June 2015	Independent non-executive Director	Responsible for supervising and providing independent judgment to our Board
Dr. Leung Lim Kin, Simon (梁念堅)	60	12 June 2015	12 June 2015	Independent non-executive Director	Responsible for supervising and providing independent judgment to our Board
Prof. Tsui Lap Chee (徐立之)	64	12 June 2015	12 June 2015	Independent non-executive Director	Responsible for supervising and providing independent judgment to our Board

Note: None of our Directors is personally related to any other Director, except that Ms. Man is the spouse of Mr. Chan.

Members of our senior management

Name	Age	Date of joining our Group and appointment as senior management	Existing Position in our Company	Roles and Responsibilities
Mr. Cheng Hok Kai, Frederick (鄭學啟) ...	51	1 April 2010	Managing director of corporate finance and investment and company secretary	Responsible for overseeing the financial matters of our Group
Mr. Chan Lung Sang (陳隆生)	63	4 August 2003	Managing director of Nong's® (農本方)® sales and marketing	Responsible for the management of sales and marketing of Nong's® (農本方)® brand
Ms. Li Wai Shan (李慧珊)	35	2 August 2010	Chief financial officer	Responsible for the management of finance and accounting department
Mr. Lau Ka Kuen (劉家權)	33	15 February 2013	Financial controller	Responsible for the day-to-day operations of the finance and accounting department
Ms. Lee Hoi Ying (李凱盈)	36	3 July 2007	Group administration and human resources and training development general manager	Responsible for the management of administration and human resources department

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Date of joining our Group and appointment as senior management	Existing Position in our Company	Roles and Responsibilities
Mr. Shi Gang (石綱)	60	26 October 2004	Chief representative of our Beijing representative office	Responsible for liaising with government departments in the PRC with respect to the Group's operation, liaising with the CFDA at the provincial level, obtaining sales approval and monitoring the relevant policies and regulations in the PRC.
Ms. Tang Yumei (唐玉梅)	39	11 August 1998	General manager of production and supply chain in the PRC	Responsible for the management of production and supply chain
Dr. Kung Chun Fai, Angela (龔春暉)	47	14 May 2012	Group research and development director	Responsible for the research development operations and providing technological suggestions to the management of our Group
Ms. So Ka Yee, Joanna (蘇嘉儀)	46	4 November 2013	Senior manager of sales and marketing	Responsible for the management of sales and marketing of our Chinese healthcare products
Ms. Ho Man Yin, Brenda (何敏賢)	33	8 April 2013	Regulatory affairs manager	Responsible for the management of regulatory affairs department

Executive Directors

Mr. Chan Yu Ling, Abraham (陳宇齡), aged 54, was appointed as our Director on 2 December 2011 and was re-designated as our executive Director on 22 April 2014. Mr. Chan is the founder, chairman and chief executive officer of our Group. He is responsible for the overall strategic planning and operations of our business, the management of our research development and technological development functions. Mr. Chan has over 17 years of experience in Chinese medicine and healthcare products. Mr. Chan has been a fellow of Hong Kong Institute of Directors since 2001. Mr. Chan was a former part-time member of the Central Policy Unit of the Government of Hong Kong in 2005, 2008 and 2009 and a former non-official member of Commission on Strategic Development (Economic Development and Economic Cooperation with the Mainland) from 2005 to 2007. Since 2006, Mr. Chan has been an independent non-executive director of Belle International Holdings Limited (stock code: 1880), a company principally engaged in manufacturing, distribution and sale of shoes and footwear products, and listed on the Main Board. Since 2013, Mr. Chan has been a member of the Chinese Medicine Development Committee. Mr. Chan graduated from the University of Toronto in Canada with a bachelor's degree in applied sciences in June 1982. Mr. Chan was accredited as a chartered engineer in the United Kingdom in October 1989 and was accredited as a professional engineer in Ontario, Canada in January 1989. Mr. Chan is the spouse of Ms. Man, our executive Director.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan currently holds positions in various organisations and associations, details of which are set out below.

Organisations and associations	Position
Hong Kong Baptist University	Honorary university fellow and honorary court member
Hong Kong Advisory Council on Food and Environmental Hygiene, HKSAR	Member
The International Society of Oriental Medicine	Board member (Hong Kong representative)
The Hong Kong Health Food Association	Founding council member
Modernised Chinese Medicine International Association Ltd.	Founding council member
School of Pharmacy of The Chinese University of Hong Kong ...	Advisory committee member
Bachelor of Pharmacy Programme of the Department of Pharmacology and Pharmacy, Faculty of Medicine, the University of Hong Kong	Advisory board member
Hong Kong College of Pharmacy Practice.....	Founding member of the board of governors
The Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited	Advisor
The Hong Kong T. C. M. Orthopaedic and Traumatic Association Ltd.	Advisor
Chinese People's Political Consultative Conference of Guangxi Zhuang Autonomous Region Committee (中國人民政治協商會議廣西壯族自治區政協委員)	Member
Chinese People's Political Consultative Conference of Nanning City Standing Committee (中國人民政治協商會議南寧市政協常委)	Member

Mr. Chan was appointed as our chairman and chief executive officer to oversee the strategic planning and operations of our Group's business. Pursuant to A.2.1 of Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separated and not be performed by the same individual. However, due to the nature and extent of our Group's operations and Mr. Chan's in-depth knowledge and experience in Chinese medicine and health-care products and his familiarity with the operations of our Group, our Company considers that it is not preferable to find an alternative

DIRECTORS AND SENIOR MANAGEMENT

candidate to replace Mr. Chan and serve in either of the positions at this stage. As such, the role of the chairman and chief executive officer of our Company are not being separated pursuant to the requirement under A.2.1 of Appendix 14 to the Listing Rules.

Dr. Tsoi Kam Biu, Alvin (蔡鑑彪), also known as Choy Kam Biu, Alvin, aged 58, was appointed as our Director on 2 December 2011 and was re-designated as an executive Director on 22 April 2014. He joined our Group as vice president in 1998. He is responsible for the overall strategic planning of the businesses of our Group. Dr. Tsoi has over 21 years of experience in sales management and Chinese medicine and healthcare products. Prior to joining our Group, Dr. Tsoi was a sales representative in 1985 and was later promoted to a sales manager in 1988 at Essex Asia Limited, a subsidiary of Schering-Plough Corporation, a pharmaceutical company with its head office in the U.S., where he was primarily responsible for pricing strategy, distribution strategy, new product launches, sales training programmes, annual operation plan and sales management. Dr. Tsoi has been a consultant in The Hong Kong T. C. M. Orthopaedic and Traumatic Association Ltd since 1999. Since 1997, he has been an honorary president and since 2012, he has been a consultant of The Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited. Since 2013, he has been a vice president of the International Hua-Xia Medicine Society. Dr. Tsoi is a listed Chinese medicine practitioner under the Chinese Medicine Practitioners Board of the Chinese Medicine Council of Hong Kong. Dr. Tsoi received his doctorate degree in dental medicine from De Ocampo Memorial College in the Philippines in October 1983. He obtained the certificate in TCM for practitioners from the School of Professional and Continuing Education of the University of Hong Kong in June 1994 and a bachelor's degree in Chinese medicine from the Chinese Medical Research Institute of the Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited in August 1997.

Mr. Leung Chin Man (梁展文), aged 69, was appointed as our executive Director on 22 April 2014. He joined our Group in 2013 as our group managing director and is responsible for the management and coordination of the day-to-day business operation of our Group. Prior to joining our Group, Mr. Leung held various senior positions in the government of Hong Kong for 39 years. From 1988 to 1991, he was the director of community relations of the Hong Kong Independent Commission Against Corruption, where he was primarily responsible for public education regarding anti-corruption work. From 1991 to 1994, he was the deputy secretary for constitutional affairs, where he was primarily responsible for work related to constitutional reforms. From 1997 to 1999, he was the deputy secretary for housing, where he was primarily responsible for housing policy issues and from 1999 to 2002, he was the director of buildings of the Buildings Department of the government of Hong Kong, where he was primarily responsible for control and regulation of building construction. From 2002 to 2006, Mr. Leung was appointed as permanent secretary for housing, planning and lands of the Housing, Planning and Lands Bureau of the government of Hong Kong. After his retirement from the civil service, from February 2008 to July 2008, Mr. Leung was an independent non-executive director of Fineland Real Estate (Holdings) Limited, a company principally engaged in real estate development in China. In August 2008, Mr. Leung was the deputy managing director and the executive director of New World China Land Limited. In 2010 to 2012, he was the chairman of Prime Advisory Group Limited, a management consultant company, where he was responsible for the overall management of the company's business. Mr. Leung received his bachelor's degree in philosophy from the University of London in August 1974. Mr. Leung was appointed a Justice of the Peace by the Chief Executive of Hong Kong in 2007.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Man Yee Wai, Viola (文綺慧), aged 49, was appointed as our Director on 2 December 2011 and was re-designated as an executive Director on 22 April 2014. She joined our Group in 1998 as marketing director. She is responsible for the overall strategic planning of the businesses of our Group. Ms. Man has over 20 years of experience in strategic planning, brand management, consumer and industrial marketing, key account management and new product development. From 1993 to 1997, Ms. Man was a key account manager and a group product manager of Nestle China Limited, a company principally engaged in the production of food and beverage products, where she was primarily responsible for product management, strategic planning, channel marketing and key account management in Hong Kong and southern China. From 1999 to 2000, Ms. Man was the consumer marketing manager of Coca-Cola China Ltd., a company principally engaged in the production of beverages, where she was primarily responsible for the brand marketing of Coca-Cola for Hong Kong and Macau. Ms. Man began working part-time at Coca-Cola China Ltd. from July 1999 to October 1999 and subsequently changed to work full-time for her remaining tenure at Coca-Cola China Ltd. until March 2000. Ms. Man did not work full-time at our Group during her full-time employment at Coca-Cola China Ltd. and returned to our Group to work full-time in 2001. From 2004 to 2007, Ms. Man was a director of Tung Wah Group of Hospitals (“**TWGHs**”), a charitable organisation principally engaged in the provision of medical and health services, education and community services in Hong Kong, where she was primarily responsible for the governance of TWGHs and overseeing and monitoring the performance of TWGHs. From 2007 to 2012, she served as the vice chairman of the board of directors of TWGHs. From 2012 to 2013, Ms. Man served as the chairman of TWGHs and from 2013 to 2014, she was a member of the advisory board of TWGHs. From 2010 to 2013, Ms. Man was both the founding chairman of the board of governors and the college council of Tung Wah College, a tertiary education institution. She is currently the council chairman of Tung Wah College, where she is primarily responsible for leading the college council in establishing policies overseeing the overall management of the college and its resources. Since 2007, she has been a member of the hospital governing committees of five hospitals under the Hong Kong Hospital Authority as well as a fellow of the Hong Kong Institute of Directors. From 2007 to 2013, Ms. Man was a member of the Council on Human Reproductive Technology. Since 2010, Ms. Man has been a member of the Advisory Committee of the School of Chinese Medicine of Hong Kong Baptist University and since 2012, she has been a member of the Dental Sub-Group on Healthcare Manpower Planning and Professional Development. Since 2013, Ms. Man has been a member of the Council of Hong Kong Institute of Education and of the Betting and Lotteries Commission. Since 2013, Ms. Man has been a member of the Chinese People’s Political Consultative Conference of Sichuan Province. Ms. Man was awarded the Bronze Bauhinia Star by the Chief Executive of Hong Kong in 2013. She received a bachelor’s degree in science from the University of Western Ontario in Canada in October 1986 and a master’s degree in business administration from the University of Windsor in Canada in June 1989. She is the spouse of Mr. Chan, our chairman, chief executive officer and executive Director.

Non-executive Director

Mr. Chan Kin Man, Eddie (陳健文), aged 54, was appointed as our Director on 2 December 2011 and was re-designated as a non-executive Director on 12 June 2015. Mr. Chan joined our Group as a Director on 22 May 2011. He is responsible for the overall corporate strategies and management directions of our Group. Mr. Chan has over 30 years of experience in accounting and taxation matters. Since 1990, Mr. Chan has served as a partner in CWCC Co. Limited (formerly known as Dennis Chung & Co.), an accounting firm, where he was primarily responsible for overseeing the tax, corporate

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secretarial and China business advisory services. From 2006 to 2015, Mr. Chan was the non-executive chairman of Walcom Group Limited, a company principally engaged in research, production, sales and marketing of chemical animal feed and additive products, and listed on the London Stock Exchange. Mr. Chan was accredited as a certified public accountant (practising) and a fellow member by the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in January 1990 and July 1993, respectively, a chartered certified accountant (practising) and a fellow member of the Association of Chartered Certified Accountants (formerly known as the Chartered Association of Certified Accountants) in July 2004 and January 2001, respectively, and a certified tax adviser and a fellow member by The Taxation Institute of Hong Kong in July 2010. He has been an associate member of The Institute of Chartered Accountants in England and Wales since December 2007. He received a higher diploma in accounting from the Hong Kong Polytechnic University in November 1982.

Independent Non-executive Directors

Dr. Chan Kin Keung, Eugene (陳建強), aged 51, was appointed as our independent non-executive Director on 12 June 2015. Since 2007, Dr. Chan has been an honorary clinical associate professor of the Faculty of Medicine of The Chinese University of Hong Kong. Since 2011, Dr. Chan has also been a visiting professor of the Jinan University (暨南大學) in the PRC. In 2003, Dr. Chan was elected as the President of the Hong Kong Dental Association. Dr. Chan was a former part-time member of the Central Policy Unit of the Government of Hong Kong in 2005, 2008, 2009 and 2010 and a former non-official member of Commission on Strategic Development (Committee on Social Development and Quality of Life) from 2005 to 2007. In 2007, Dr. Chan was elected as the tenth session committee member of the Chinese People's Political Consultative Conference in Guangdong Province. Since 2010, Dr. Chan was appointed as the member of the Board of Advisors of Radio Television Hong Kong and a member of the Basic Law Promotion Steering Committee. Since 2011, Dr. Chan has been the Chairman of the Association of Hong Kong Professionals. In 2013, he was appointed as a member of the Advisory Committee of School of Chinese Medicine of Hong Kong Baptist University, a member of Citizens Advisory Committee on Community Relations of Independent Commission Against Corruption, a member of Independent Police Complaints Council and a member of the Appeal Board on Public Meetings and Procession. Dr. Chan was appointed as a member of the Town Planning Board in April 2014 and a member of the Quality Education Fund Steering Committee in January 2015. Dr. Chan received a bachelor's degree in dentistry from the University of Adelaide in Australia in May 1988 and a Fellowship Ad Eundem from the Royal College of Surgeons of England in February 2006. In 2004, he was awarded the Ten Outstanding Young Persons Selection by the Junior Chamber International Hong Kong. In 2011, he was appointed as the non-official Justices of the Peace by the Chief Executive of Hong Kong.

Mr. Ho Kwok Wah, George (何國華), aged 57, was appointed as an independent non-executive Director on 12 June 2015. Mr. Ho has over 20 years of experience in accounting, auditing and financial management. Since 1998, he has been the proprietor of George K. W. Ho & Co., Certified Public Accountants, an accounting firm in Hong Kong. Since 1999, he has been the director of Hong Kong Shatin Industries and Commerce Association Limited, a company principally engaged in promoting trade association and non-profit making activities, where he is primarily responsible for the advisory role. Since 1999, he has been the director of Hong Kong Commerce and Industry Associations Limited, a company principally engaged in promoting trade association and non-profit making

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activities, where he is primarily responsible for the advisory role. Mr. Ho has also been an independent non-executive director of each of Town Health International Holdings Limited (stock code: 3886), a company principally engaged in the provision of medical dental and healthcare related services, since September 2004, Belle International Holdings Limited (stock code: 1880), a company principally engaged in manufacturing, distribution and sale of shoes and footwear products, since October 2006 and Rykadan Capital Limited (formerly known as Sundart International Holdings Limited with stock code: 2288), a company principally engaged in manufacturing of interior decorative materials and property development, since February 2010, all of which are companies listed on the Main Board of the Stock Exchange. He was accredited as a certified public accountant by the Hong Kong Institute of Certified Public Accountants in January 1987 and a fellow member of Hong Kong Institute of Certified Public Accountants in September 1993. Mr. Ho received a bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 1994.

Dr. Leung Lim Kin, Simon (梁念堅), aged 60, was appointed as our independent non-executive Director on 12 June 2015. Dr. Leung has more than 30 years of experience in both the information technology and telecommunications industries. Dr. Leung is currently a member of the Ivey Asia Advisory Board of the Richard Ivey School of Business of the University of Western Ontario, an educational institution, where he is primarily responsible for advising the school on its mission and strategy in Asia. He is also currently a governor of Tung Wah College, an educational institution, where he is primarily responsible for determining key governance issues. In 2005, he was appointed as the president of Motorola Asia-Pacific, a company principally engaged in the production of data communication and telecommunication equipment, where he was primarily responsible for the overall strategic planning and implementation in the Asia-Pacific region. Since 2008, Dr. Leung has been the chief executive officer of Microsoft Greater China region, a company principally engaged in developing, manufacturing, licensing and sales of software products, where he is primarily responsible for overseeing overall business operations and for developing and implementing a regional strategy. From 2009 to 2010, he was the governor of the Upper Canada College, an educational institution, where he was primarily responsible for establishing and directing policy for the college and overseeing its financial affairs. In 2012, Dr. Leung was appointed as chief executive officer of Harrow International Management Services Limited (“HIMS”), a company principally engaged in the management of Harrow International Schools, where he was responsible for the development of new Harrow International Schools and education services in Asia. Since 2010, Dr. Leung has been a member of the International Advisory Committee of The Hong Kong Polytechnic University. Dr. Leung received his bachelor's degree in arts from the University of Western Ontario in Canada in October 1978, an honorary doctorate in laws from the University of Western Ontario in Canada in October 2005 and a doctorate degree of business administration from the Hong Kong Polytechnic University in December 2007.

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Prof. Tsui Lap Chee (徐立之), aged 64, was appointed as an independent non-executive Director on 12 June 2015. Prof. Tsui currently holds positions in various organisations and associations, details of which are set out below.

Organisations and associations	Position
Victor and William Fung Foundation	President
Qiushi Academy for Advanced Studies in the Zhejiang University	Director (院長)
University of Toronto.....	Emeritus University Professor
Board of Governors of Chu Hai College of Higher Education	Member
Council of New Asia College, The Chinese University of Hong Kong	Member
Chiang Chen Industrial Charity Foundation.....	Director
Royal Society of Canada	Fellow
Royal Society of London	Fellow
Academia Sinica	Fellow
National Academy of Sciences USA.....	Foreign Associate
Chinese Academy of Sciences	Foreign Member
Canadian Medical Hall of Fame	Laureate

Prof. Tsui has over 40 years of research work experience, particularly in human genetics and genomics. Prior to joining our Group, in 1994, Prof. Tsui became a University Professor at the University of Toronto. From 1996 to 2002, he was the Geneticist-in-Chief at the Hospital for Sick Children in Toronto. From 2002 to 2014, Prof. Tsui was the Vice Chancellor of the University of Hong Kong. He has over 300 peer-reviewed scientific publications and 65 invited book chapters. Prof. Tsui is also an independent non-executive director of China NT Pharma Group Company Limited (stock code: 1011), a company principally engaged in research and development, manufacturing, sales and distribution of vaccine and pharmaceutical products, since 2010, and of Hang Lung Group Limited (stock code: 0010), a company principally engaged in property development and investment, since 2014, both of which are companies listed on the Main Board. Prof. Tsui received his bachelor of science degree and master of philosophy degree from The Chinese University of Hong Kong in October 1972 and October 1974, respectively. He received a doctor of philosophy degree from the University of Pittsburgh in the U.S. in April 1979. From 1989 to 2015, he was the recipient of many national and international prizes and was awarded 12 honorary doctoral degrees from universities around the world. He was also awarded the Order of Canada by the Governor General of Canada in 1991, the Order of Ontario by the Lieutenant Governor of Ontario in 2000 and the Gold Bauhinia Star by the Chief Executive of Hong Kong in 2011. In 2006, he was appointed as the Justice of the Peace by the Chief Executive of Hong Kong.

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Each of our Directors has not been involved in any of the events described under Rule 13.51(2) of the Listing Rules. Save as disclosed above, none of our Directors was a director of other public companies the securities of which are listed on any securities market in Hong Kong or overseas for the three years immediately preceding the date of this prospectus.

SENIOR MANAGEMENT

Mr. Cheng Hok Kai, Frederick (鄭學啟), aged 51, is our managing director of corporate finance and investment and our company secretary. Mr. Cheng joined our Group as chief financial officer in 2010. He is responsible for overseeing the financial matters of our Group. Mr. Cheng has extensive experience in business, finance, and accounting management. Prior to joining our Group, from 1985 to 1988, Mr. Cheng worked as an audit assistant and senior accountant of Price Waterhouse (currently known as PricewaterhouseCoopers), an accounting firm in Hong Kong, where he was primarily responsible for audit assignments for various companies. From 1997 to 2004, Mr. Cheng was the finance director of Asia Pacific and Japan of LSI Logic Hong Kong Limited, a company principally engaged in designing, developing, and marketing semiconductors and storage systems, focused in the storage, communication, and consumer markets, where he was primarily responsible for finance and accounting function for the operation in Asia Pacific and Japan. From 2004 to 2006, he was the finance director of Pacific Rim of Mentor Graphics Asia Pte Ltd., a company principally engaged in providing software and hardware design solutions for electronic design automation, where he was primarily responsible for the finance and accounting function of the operation in the Pacific Rim. From 2006 to 2008, he worked as the finance director for Asia Pacific and Japan of the Autodesk Asia Pte Ltd., a company principally engaged in providing 2D and 3D design software for the manufacturing, building and construction, and media and entertainment markets, where he was primarily responsible for finance and accounting function of the operation in Asia Pacific and Japan. Mr. Cheng obtained his bachelor's degree in finance and accounting from the University of Salford in the United Kingdom in July 1985, and his master's degree in accounting from the University of New South Wales in Australia in May 1992. Mr. Cheng was admitted as a certified practising accountant of CPA Australia (formerly known as the Australian Society of Certified Practising Accountants) and an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in February 1992 and April 1992, respectively. Mr. Cheng became fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia in March 2003 and January 2004, respectively. Mr. Cheng was admitted as an associate member of the Institute of Chartered Secretaries and Administrators in April 1995 and a member of the Governance Institute of Australia (formerly known as Chartered Secretaries Australia) in December 1996. Mr. Cheng became a fellow member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia in June 2012 and November 2013, respectively.

Mr. Chan Lung Sang (陳隆生), aged 63, is our managing director for the sales and marketing of our Nong's® (農本方)® brand. Mr. Chan joined our Group as a general manager in 2003. He is responsible for sales and marketing of our Nong's® (農本方)® brand ethical products. From 1974 to 1988, Mr. Chan worked as a trainee, assistant officer and later on a senior research officer of Hang Seng Bank Limited, a Hong Kong based banking and financial services institution, where he was primarily responsible for retail banking and methods research. From 1988 to 1990, Mr. Chan worked as a senior systems analyst of Standard Chartered Bank, a licensed bank in Hong Kong, where he was primarily responsible for organisation and methods research. From 1992 to 2001, Mr. Chan held

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various positions in A.S. Watson & Co., Ltd., a retail company. From 1992 to 1995, he worked as a customer services manager at A.S. Watson Co., Ltd., where he was primarily responsible for customer services for Watson's water. From 1995 to 1999, he was a senior customer services manager at A.S. Watson & Co., Ltd. and from 1999 to 2001, he was the general manager at A.S. Watson & Co., Ltd., where he was primarily responsible for overseeing the Guangzhou business of Watson's water. In 2011, Mr. Chan was appointed as the honorary president of The H.K.T.C.M. Orthopaedic and Traumatic Association Ltd. and in 2012, he was appointed as a consultant of the Association of Hong Kong and Kowloon Practitioners of Chinese Medicine Limited. Mr. Chan obtained a diploma in management studies, a programme jointly established by the Hong Kong Polytechnic University and Hong Kong Management Association, in September 1987 and a master's degree in business administration from Janus University (formerly known as Newport University) in the U.S. through long distance learning in March 1995.

Ms. Li Wai Shan (李慧珊), aged 35, is our chief financial officer. She is responsible for the management of the finance and accounting department. Ms. Li joined our Group in August 2010 as financial controller. Prior to joining our Group, from 2001 to 2010, Ms. Li was a staff accountant, senior accountant, manager and later on a senior audit manager at Ernst & Young, a certified public accounting firm in Hong Kong, where she was primarily responsible for audit and assurance service. Ms. Li was accredited as a certified public accountant by the Hong Kong Institute of Certified Public Accountants in October 2005. She received a bachelor's degree in accounting from the Hong Kong University of Science and Technology in November 2001.

Mr. Lau Ka Kuen (劉家權), aged 33, is our financial controller. He is responsible for the day-to-day operations of the finance and accounting department. Mr. Lau joined our Group in 2013 as the assistant financial controller. Prior to joining our Group, from 2005 to 2011, Mr. Lau was the staff accountant, associate, senior auditor and later on an audit manager in Deloitte Touche Tohmatsu, Hong Kong, a certified public accounting firm in Hong Kong, where he was primarily responsible for audit of companies listed on the Stock Exchange. Mr. Lau was accredited as a chartered public accountant by the Hong Kong Institute of Public Accountants in August 2007 and a chartered financial analyst by the Chartered Financial Analyst Institute in September 2014. He received a bachelor's degree in business administration in finance and information system from the Hong Kong University of Science and Technology in November 2005.

Ms. Lee Hoi Ying (李凱盈), aged 36, is our group administration, human resources and training development general manager. Ms. Lee joined our Group in July 2007 as assistant manager of human resources and administration. She is primarily responsible for the management of the administration and human resources department. Prior to joining our Group, from 2003 to 2007, Ms. Lee was the administration and human resources assistant manager of Urban Parking Limited, a company principally engaged in local car park management, including provision of consultation services, interior design and procurement of car park equipment, where she was primarily responsible for overseeing its administration, human resources, training and customer services. Ms. Lee received a bachelor's degree in translation from Lingnan University in Hong Kong in December 2001 and a master's degree in strategic human resources management from the Hong Kong Baptist University in November 2014.

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Mr. Shi Gang (石綱), aged 60, is our chief representative of the Beijing representative office. Mr. Shi joined our Group as the chief representative of the Beijing representative office and vice president of the Greater China region in October 2004. He is mainly responsible for liaising with government departments in the PRC with respect to our Group's operation, liaising with the CFDA at the provincial level, obtaining sales approval and monitoring the relevant policies and regulations in the PRC. Prior to joining our Group, Mr. Shi was appointed as the chief representative of Ryoden (Holdings) Limited (菱電(集團)有限公司) in 1992, a company principally engaged in the elevator business, where he was primarily responsible for human resources and operational management of the Beijing representative office, as well as liaising with government departments and leaders in Beijing on behalf of the board of directors of Ryoden (Holdings) Limited (菱電(集團)有限公司). Mr. Shi was accredited as an electrical engineer in the PRC by The Ministry of Science and Technology of the PRC (中華人民共和國國家科學技術委員會) in November 1994. Mr. Shi received his bachelor's degree in journalism from Beijing Renwen University (北京人文大學) (formerly known as Beijing Renwen Hanshou University (北京人文函授大學)) in May 1987. He completed the Beijing Foreign Investment Enterprise senior management training course (北京市外商投資企業中方高級管理人員培訓班) and the Beijing Foreign Investment Enterprise personnel management training course (北京外商投資企業人事管理培訓) organised by the Beijing Personnel Bureau (北京市人事局) in December 1994 and November 1994, respectively.

Ms. Tang Yumei (唐玉梅), aged 39, is the general manager of production and supply chain in the PRC. She is responsible for the management of production and supply chain. Ms. Tang joined our Group in 1998 and worked at various positions such as laboratory technician at the quality control division, a technician and assistant manager at the technology division, manager at the production division and plant manager of our Group, where she was primarily responsible for production and quality management. Ms. Tang received a bachelor's degree in Chinese medicine from the Guangxi University of Chinese Medicine (廣西中醫藥大學) (formerly known as Guangxi Institute of Chinese Medicine (廣西中醫學院)) in July 1998 and a master's degree in Chinese medicine from the Guangxi University of Chinese Medicine (廣西中醫藥大學) (formerly known as Guangxi Institute of Chinese Medicine (廣西中醫學院)) in July 2005.

Dr. Kung Chun Fai Angela (龔春暉), aged 47, is our group research and development director. She joined our Group in 2012 as the regulatory affairs manager, and she was re-designated as the new drug development manager and the group research and development director in April 2013 and October 2013, respectively. She is responsible for the research development operations and providing technological suggestions to the management of our Group. Dr. Kung has extensive experience in areas of health food and Chinese medicine products development, regulatory affairs and intellectual property management in both the PRC and Hong Kong. From 2005 to 2012, she was appointed as an intellectual property and regulatory affairs manager and scientist of business development in the Hong Kong Jockey Club Institute of Chinese Medicine, where she was primarily responsible for health food and TCM development, research and regulatory affairs. Dr. Kung was awarded second class scientific and technological progress award (中國輕工業科技進步二等獎) from the National Light Industry Department of the PRC (中國輕工總會) and she was also awarded the second class state scientific and technological progress award (科技進步二等獎) from the National Office for Science and Technology of the PRC (中華人民共和國國家科學技術委員會) in 1994 and 1996, respectively. Dr. Kung was accredited as a senior food engineer in the PRC by the Guangdong Provincial Personnel Department in January 2001. Dr. Kung received her bachelor's degree in biochemistry and a master's degree in

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biochemistry and molecular biology from Sun Yat-sen University (中山大學) in the PRC in June 1989 and December 2004, respectively. She received a doctorate degree in Chinese Medicine from Guangzhou University of Chinese Medicine (廣州中醫藥大學) in the PRC in June 2010.

Ms. So Ka Yee, Joanna (蘇嘉儀), aged 46, is our senior manager of sales and marketing. Ms. So joined our Group in November 2013 as sales manager. She is primarily responsible for the management of sales and marketing of our Chinese healthcare products. Prior to joining our Group, Ms. So was appointed as an operation manager in 2003 at Moisselle Travel Agency Co. Ltd., a company principally engaged in the tourism industry, where she was primarily responsible for sales and marketing. From 2005 to 2010, Ms. So was a secretary to the corporate director of corporate marketing and later on an assistant manager of the direct sales development and promotion planning and merchandising team of Lee Kum Kee (HK) Ltd., a company principally engaged in fast-moving consumer goods, where she was primarily responsible for sales and promotion development. From 2011 to 2013, she was the assistant sales manager of the general trade services of LF Asia (Hong Kong) Ltd., a company principally engaged in the distribution sector, where she was primarily responsible for sales management.

Ms. Ho Man Yin, Brenda (何敏賢), aged 33, is our regulatory affairs manager. She is primarily responsible for the management of the regulatory affairs department. From 2005 to 2007, Ms. Ho was a regulatory affairs executive, later on an assistant manager of our Group, where she was primarily responsible for assisting local and overseas registration of products of our Group. Ms. Ho re-joined our Group in 2013 as regulatory affairs manager. Ms. Ho was accredited as a registered Chinese medicine practitioner by the Chinese Medicine Council of Hong Kong in September 2005. She received bachelor's degrees in Chinese medicine and in biomedical science from the Hong Kong Baptist University in November 2005 and she received a master's degree in public health from The Chinese University of Hong Kong in December 2011.

None of our senior management members were directors of other public companies, the securities of which are listed on any securities market in Hong Kong or overseas.

COMPANY SECRETARY

Mr. Cheng Hok Kai, Frederick (鄭學啟) is our company secretary. Please refer to the subsection headed “— Senior Management — Mr. Cheng Hok Kai, Frederick (鄭學啟)” in this Prospectus for further details on the biography of Mr. Cheng Hok Kai, Frederick.

BOARD COMMITTEES

Audit Committee

We have established an audit committee on 12 June 2015 with written terms of reference 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 consists of two independent non-executive Directors and one non-executive Director, Mr. Ho Kwok Wah, George (being the chairman of the audit committee who has a professional qualification in accountancy), Dr. Leung Lim Kin, Simon and Mr. Chan Kin Man, Eddie. The primary duties of the audit committee are to assist the

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Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We have established a remuneration committee on 12 June 2015 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members, two of whom are independent non-executive Directors, being Dr. Chan Kin Keung, Eugene and Prof. Tsui Lap Chee, and one executive Director, being Dr. Tsoi Kam Bui, Alvin. The remuneration committee is chaired by Dr. Chan Kin Keung, Eugene, an independent non-executive Director. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Directors regarding our policy and structure for the remuneration of all our Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policies; (ii) making recommendations to our Board on the remuneration packages of our Directors and senior management; (iii) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

During the Track Record Period, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of our Group and the individual performance of our Directors and senior management members. We intend to adopt the same remuneration policy after the Listing, subject to review by and the recommendations of our remuneration committee.

Nomination Committee

We have established a nomination committee on 12 June 2015 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely Mr. Chan, Dr. Chan Kin Keung, Eugene and Dr. Leung Lim Kin, Simon. Two of the members, being Dr. Chan Kin Keung, Eugene and Dr. Leung Lim Kin, Simon, are our independent non-executive Directors. The chairman of the nomination committee is Mr. Chan. The primary function of the nomination committee is to make recommendations to our Board on the appointment of members of our Board.

Scientific Advisory Committee

We have established a scientific advisory committee with written terms of reference on 12 June 2015. The scientific advisory committee consists of seven members, namely Prof. Rudolf Bauer, Mr. Chan, Prof. Bill Chan, Prof. Peter Hylands, Prof. Liang Song Ming, Mr. Lin Jinn Sin and Prof. Paul Vanhoutte. One of the members is our executive Director. The chairman of the scientific advisory

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committee is Prof. Paul Vanhoutte. The primary function of the scientific advisory committee is to make recommendations to our Board on key established projects, strategic development and direction of development and the implementation of scientific research plan of our Group.

The table below shows certain information in respect of members of the scientific advisory committee.

Name	Titles of the members of the scientific advisory committee
Prof. Paul Vanhoutte.....	Chair Professor of the Department of Pharmacology & Pharmacy, the University of Hong Kong Honorary Professor of the Department of Anaesthesiology, the University of Hong Kong
Prof. Rudolf Bauer	Professor of the Department of Pharmacognosy, University of Graz, Austria Head of the Institute of Pharmaceutical Sciences, University of Graz, Austria
Prof. Bill Chan.....	Professor of Neurology, Xuanwu Hospital of Capital Medical University, Beijing, the PRC Director of the Institute of Geriatrics and Department of Neurobiology, Xuanwu Hospital of Capital Medical University, Beijing, the PRC Adjunct scientist at the Parkinson's Institute, Sunnyvale, California, the U.S.
Prof. Peter Hylands	Head of the Department of Pharmacy, King's College London, the United Kingdom Head of Institute of Pharmaceutical Science, King's College London, the United Kingdom
Prof. Liang Song Ming..	Visiting Professor of the School of Chinese Medicine, The Chinese University of Hong Kong
Mr. Lin Jinn Sin.....	Retired member of IBM Academy of Technology, IBM Corporation

Please refer to the subsection headed “— Executive Directors — Mr. Chan Yu Ling, Abraham (陳宇齡)” in this section for further details on the biography of Mr. Chan.

CORPORATE GOVERNANCE

Our Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of our Group so as to achieve effective accountability.

DIRECTORS AND SENIOR MANAGEMENT

Our Company has adopted the code provisions stated in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our Company is committed to the view that the Board should include a balanced composition of executive, non-executive and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the three years ended 31 December 2012, 2013 and 2014, was HK\$5.0 million, HK\$6.3 million and HK\$8.8 million, respectively.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid by our Group to our five highest paid individuals for the three years ended 31 December 2012, 2013 and 2014, was HK\$3.0 million, HK\$3.5 million and HK\$1.8 million, 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 in respect of the three years ended 31 December 2012, 2013 and 2014. Further, none of our Directors waived any remuneration during the same periods.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors for the year ending 31 December 2015 is estimated to be no more than HK\$15 million.

RETIREMENT BENEFIT SCHEME

We participate in the mandatory provident fund for our employees in Hong Kong in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). We have paid the relevant contributions in accordance with the Mandatory Provident Fund Schemes Ordinance.

SHARE OPTION SCHEME

We have adopted the Share Option Scheme. For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information — Share Option Scheme” in Appendix IV to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

We have appointed Southwest Securities (HK) Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The terms of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Global Offering and the Capitalisation Issue taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, have beneficial interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% 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 of our Group:

<u>Name of Shareholder</u>	<u>Nature of Interest</u>	<u>Shares held immediately prior to the repurchase by PuraPharm Corp., Capitalisation Issue and the Global Offering</u>		<u>Shares held immediately following the completion of the Capitalisation and the Global Offering</u>	
		<u>Number</u>	<u>Percentage (approx.)</u>	<u>Number</u>	<u>Percentage (approx.)</u>
PuraPharm Corp. ⁽²⁾⁽³⁾⁽⁴⁾	Beneficial owner	3,870,968	100%	51,566,500(L)	22.93%
Joint Partners ⁽⁴⁾	Interest of a controlled corporation	3,870,968	100%	51,566,500(L)	22.93%
Mr. Chan ⁽²⁾⁽⁵⁾	Interest of controlled corporations	3,870,968	100%	128,852,500(L)	57.28%
	Interest of spouse	3,870,968	100%	51,566,500(L)	22.93%
Ms. Man ⁽³⁾⁽⁶⁾	Interest of a controlled corporation	3,870,968	100%	51,566,500(L)	22.93%
	Interest of spouse	3,870,968	100%	128,852,500(L)	57.28%
Fullgold Development ⁽⁷⁾	Beneficial owner	3,870,968	100%	77,286,000(L)	34.35%

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Mr. Chan beneficially owns 50% of the issued share capital of Joint Partners, which in turn wholly owns the entire issued share capital of PuraPharm Corp.. Upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised), PuraPharm Corp. will own 22.93% of the issued share capital of our Company. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by PuraPharm Corp..

SUBSTANTIAL SHAREHOLDERS

- (3) Ms. Man beneficially owns the 50% of the issued share capital of Joint Partners, which in turn wholly owns the issued share capital of PuraPharm Corp.. Upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised), PuraPharm Corp. will own 22.93% of the issued share capital of our Company. By virtue of the SFO, Ms. Man is deemed to be interested in the Shares held by PuraPharm Corp..
- (4) PuraPharm Corp. is wholly owned by Joint Partners. By virtue of the SFO, Joint Partners is deemed to be interested in the Shares held by PuraPharm Corp..
- (5) Mr. Chan is the spouse of Ms. Man. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by Ms. Man.
- (6) Ms. Man is the spouse of Mr. Chan. By virtue of the SFO, Ms. Man is deemed to be interested in the Shares held by Mr. Chan.
- (7) Fullgold Development is wholly owned by Mr. Chan. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by Fullgold Development. Fullgold Development's interest in the Shares immediately prior to the repurchase by PuraPharm Corp., Capitalisation Issue and the Global Offering was held through PuraPharm Corp., its controlled corporation at the time.

If the Over-allotment Option is fully exercised, the beneficial interests of each of Mr. Chan, Ms. Man, Fullgold Development, Joint Partners and PuraPharm Corp. will be approximately 54.67%, 54.67%, 32.79%, 21.88% and 21.88%, respectively.

Except as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and no Shares are to be issued upon the exercise of any options which may be granted under the Share Option Scheme, have beneficial interests or short positions in any Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in the circumstances at general meetings of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

The following is a description of the authorised and issued Share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the Global Offering (without taking into account the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme) and the Capitalisation Issue (assuming the Over-allotment Option is not exercised):

	<u>Nominal value</u>
	<i>(US\$)</i>
Authorised share capital:	
50,000,000,000 Shares of US\$0.10 each	5,000,000,000
Issued and to be issued, fully paid or credited as fully paid:	
38,709,680 Shares in issue as of the date of this prospectus	3,870,968
130,040,320 Shares to be issued pursuant to the Capitalisation Issue	13,004,032
<u>56,250,000</u> Shares to be issued under the Global Offering	<u>5,625,000</u>
<u>225,000,000</u> Total	<u>22,500,000</u>

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Global Offering and Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKINGS

The Offer Shares will be 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 mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalisation Issue.

SHARE CAPITAL

GENERAL MANDATE TO ALLOT AND ISSUE NEW SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of our Company with a total nominal value of not more than the sum of:

- (1) 20% of the total nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme); and
- (2) the total nominal amount of share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option which may be granted under the Share Option Scheme.

This general mandate will remain in effect until the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

Further information on this general mandate is set out in the section headed "Statutory and General Information — A. Further Information about Our Group — 3. Resolutions in writing of the Shareholders of our Company passed on 12 June 2015" in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Statutory and General Information — A. Further Information about Our Group — 6. Repurchases of our Shares" in Appendix IV to this prospectus.

SHARE CAPITAL

This general mandate to repurchase Shares will remain in effect until the earliest of:

- (i) the conclusion of our Company's next annual general meeting; or
- (ii) the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting.

Further information on this general mandate is set out in the section headed "Statutory and General Information — A. Further Information about our Group — 3. Resolutions in writing of the Shareholders of our Company passed on 12 June 2015" in Appendix IV to this prospectus.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the Shareholders dated 12 June 2015, we conditionally adopted the Share Option Scheme. Summaries of the principal terms of the Share Option Scheme are set out in the section entitled "Statutory and General Information — D. Other Information — 1. Share Option Scheme" in Appendix IV to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which ranks *pari passu* with the other shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, our Company may from time to time by ordinary shareholders' resolution (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce or redeem its share capital by shareholders' special resolution. For more details, please see the section headed "Summary of the Constitution of our Company and Cayman Company Law — 2. Articles of Association — 2.5 Alteration of Capital" in Appendix III to this prospectus.

Pursuant to the Cayman Companies Law and the terms of the Memorandum and the Articles, all or any of the special rights attached to the Share or any class of Shares may 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. For more details, please see "Summary of the Constitution of our Company and Cayman Company Law — 2. Articles of Association — 2.4 Variation of Rights of Existing Shares or Classes of Shares" in Appendix III to this prospectus.

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You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial information as at and for each of the years ended 31 December 2012, 2013 and 2014 and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. 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 outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please refer to the sections headed "Risk Factors" and "Forward-looking Statements" in this prospectus.

OVERVIEW

We are a leading Hong Kong-based Chinese medicine company engaged in the research and development, production, marketing and sale of CCMG products. We currently sell over 677 CCMG products under our Nong's® (農本方)® brand, consisting of over 533 single formulae products and 144 combo formulae products. Our CCMG products are complimented by our proprietary, integrated and comprehensive diagnostic clinic management and drug dispensing system, CMCMS. We also sell a broad range of general Chinese healthcare products, examples being PuraGold® (金靈芝)® and Oncozac® (安固生)®, which are essentially Chinese herbal supplements, on an OTC basis, targeted at end-consumers.

We market and distribute our CCMG products through both direct sales channels and third party distributors to hospitals, medical institutions, clinics, specialised pharmaceutical and general retail chains, and Chinese medicine practitioners in Hong Kong and China, who in turn prescribe our CCMG products to patients. We commenced the sale of our CCMG products in China in 2006. As at 31 December 2014, our extensive sales and distribution network covered over 300 hospitals and medical institutions in over 20 provinces, autonomous regions and municipalities in China.

We have also established our own Chinese medicine clinics in Hong Kong under the Nong's® (農本方)® brand. As of the Latest Practicable Date, we have established 13 Nong's® (農本方)® Chinese medicine clinics mainly within shopping malls across Hong Kong. The Nong's® (農本方)® Chinese medicine clinics are operated by registered Chinese medicine practitioners who use our CMCMS to prescribe our CCMG products to patients.

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Our solid revenue growth during the Track Record Period demonstrates our ability to capitalise on our leading market position in Hong Kong and places us in a strong position to take advantage of the significant business opportunities in China arising from the fast growing CCMG product and Chinese healthcare product markets. Our annual revenue grew from HK\$287.8 million in 2012 to HK\$342.3 million in 2013 and further to HK\$366.4 million in 2014, representing a CAGR of 12.8% during this period.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations, financial condition and the period-to-period comparability of our financial results are primarily affected by the following factors:

Market Demand for Our CCMG Products

We offer an extensive range of CCMG products to our customers in Hong Kong and the PRC. Our revenue growth during the Track Record Period was primarily attributable to an increase in sales of our CCMG products in Hong Kong and the PRC, which in turn have been driven primarily by the significant growth of market demand for our CCMG products in Hong Kong and the PRC.

According to the Euromonitor Report, the prescription value of each of the CCMG product markets in Hong Kong and the PRC increased from 2009 to 2014 and is expected to further increase in the future, primarily attributable to Hong Kong CCMG product manufacturers' further expansion into new sales channels, higher public confidence in CCMG products due to stringent Hong Kong government regulation and supervision, initiatives to promote the use of Chinese medicine treatment, medical insurance coverage of CCMG products in Hong Kong and the PRC, enhanced production capabilities of PRC-based CCMG product manufacturers to meet increasing demand in these markets. With our strong market position in Hong Kong, our extensive range of product offerings, and our effective sales and distribution network across Hong Kong and the PRC, we believe we are well-positioned to take advantage of the future growth of these markets. Market demand for our products is and will be subject to a number of factors, including increasing health awareness of the general public, ageing population and changing consumer perception toward Chinese medicine, high incidence of chronic diseases due to various reasons, such as environmental concerns and ageing population, in Hong Kong and the PRC. We expect that the market demand for our products in Hong Kong and the PRC will continue to grow in the near future and drive growth in our revenue and profit.

Product Mix

We provide an extensive range of CCMG products and Chinese healthcare products, and our diverse product offerings enable us to capitalise on the changing market trend and customer demand in our target markets in Hong Kong and the PRC. For the years ended 31 December 2012, 2013 and 2014, revenue from our CCMG product sales segment accounted for 84.7%, 89.7% and 88.7% of our total revenue for the same periods, respectively, and revenue from our Chinese healthcare product sales segment accounted for 15.1%, 10.1% and 10.9% of our total revenue for the respective periods. As our products have different gross profit margins depending on a series of factors (such as cost of raw materials, cost of packaging materials, labour costs and product pricing), the mix of products in our portfolio materially affects our financial performance and results of operations. For example, our

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Chinese healthcare products have historically commanded higher profit margins than those of our CCMG products, mainly due to the increasing health awareness of the general public, and the primary purpose of these products for health care and maintenance.

We intend to continue to diversify our existing portfolio and develop new Chinese medicine products according to prevailing market conditions and expected customer demand for our products in our target markets, as well as our development plan and business strategies. We believe that we can continue developing a product mix that supports sustainable growth and helps us meet our current and future profitability targets.

Performance and Expansion of Our Sales and Distribution Network and Development of Different Sales Models

The growth of our revenue and profit depends on the performance and expansion of our sales and distribution network across Hong Kong and the PRC, as well as our ability to develop new types of sales models. Our ability to increase revenue is directly affected by the scale of our sales and distribution network and the effectiveness of our sales and marketing activities in our target markets. Capitalising on the rising market demand for our products, we have successfully developed and implemented different sales models for our CCMG products and Chinese healthcare products in Hong Kong and the PRC, respectively. In the PRC, we sell our CCMG products primarily through distributors and also make direct sales to our customers comprising approved hospitals and medical institutions. In Hong Kong, we sell our CCMG products primarily through direct sales to our customers comprising hospitals, Chinese medicine clinics, non-profit organisations, pharmacy chain stores and private Chinese medicine practitioners. We have also established a chain of Nong's® (農本方)® Chinese medicine clinics and entered into relevant contracts with registered private Chinese medicine practitioners who operate these clinics for us and prescribe our CCMG products to patients. Our Chinese healthcare products are sold primarily through direct sales to major pharmacy chain stores, western practitioners, pharmacy stores, clinics and individual end consumers in Hong Kong.

Different sales models in Hong Kong and the PRC have different profit margins, depending on a series of factors (such as product pricing, selling and distribution expenses and administrative expenses). The profit margin of our direct sales segment is generally higher than that of our distributor sales segment due to different selling prices. In addition, the profit margin of our PRC CCMG product sales segment is generally higher than that of our Hong Kong CCMG product sales segment primarily because our CCMG products have historically commanded higher selling prices in the PRC.

During the Track Record Period, we experienced strong turnover growth through our successful sales models and the consolidation of our sales and distribution network in our target markets. We expect that our revenue and profit growth will continue to depend on our ability to develop successful sales models and further expand our sales and distribution network.

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Product Pricing and Branding

The pricing of our products directly affects our financial performance and results of operations. Our product prices are generally determined based on a number of factors, such as market positioning of our product brands, sales regions, sales channels, anticipated market trend, expected changes in customer demand for our products, costs of production, and selling prices of comparable or similar products of our competitors.

We produce a wide range of CCMG products catering for various needs from hospitals, Chinese medicine clinics and medical institutions. Our comprehensive CCMG product offerings, coupled with the reputation of high quality, reliability and safety associated with our brand “Nong’s® (農本方)®”, have enabled us to command premium prices as compared with similar products offered by other manufacturers. Moreover, selling prices of our CCMG products through direct sales are generally higher than those of our CCMG products sold to distributors. Selling prices of our CCMG products in the PRC remained relatively stable during the Track Record Period. Our CCMG products have historically commanded higher selling prices in the PRC than those in Hong Kong primarily because our CCMG products are sold in Hong Kong mainly through a price tendering process due to market competition. In addition, the selling prices of our CCMG products in Hong Kong decreased in 2014, mainly because we increased our price competitiveness to ensure that our key customers renewed their tender contracts with us (for a term ranging from two to three years).

We have also successfully launched a number of Chinese healthcare products in Hong Kong and the PRC and some of them, such as PuraGold® (金靈芝)® and Oncozac® (安固生)®, have become our best-selling products in their respective healthcare product segments. Our Chinese healthcare products cover a wide range of categories and their selling prices vary widely. Revenue from our Chinese healthcare product sales segment is generated primarily from the direct sales of our Chinese healthcare product in Hong Kong. As at the Latest Practicable Date, the retail prices of our Chinese healthcare products in Hong Kong ranged from approximately HK\$38 to HK\$3,300. Selling prices of our Chinese healthcare products in Hong Kong increased during the Track Record Period mainly as a result of significant market demand for our best-selling products in their respective healthcare product segments.

In addition, we have successfully established customers’ awareness and acceptance of our product brands and associate them with images of high quality, efficacy, safety and reliability of our products. Due to our strong brand, we believe an increasing number of direct sales customers as well as distributors have purchased our products, which has led to our revenue and profit growth. We believe through the continuous strengthening of our brands, our extensive range of product offerings and other competitive strengths, we have built and solidified the loyalty of our customers, which in turn reduces the level of their sensitivity to the prices of our products, thus enabling us to maintain and further increase our profitability.

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Cost of Raw Materials

Our cost of sales directly affects our results of operations and profitability. The major components of our cost of product sales include cost of raw materials, cost of packaging materials and labour costs in relation to our manufacture of CCMG products and Chinese healthcare products. For the years ended 31 December 2012, 2013 and 2014, our cost of raw materials accounted for 57.8%, 58.1% and 61.5% of our cost of product sales for the same periods, respectively. We procure a wide variety of raw Chinese herbs for our production, and each particular type of raw Chinese herb accounted for an insignificant portion of our cost of raw materials during the Track Record Period. Based on our historical experience, we do not consider that the price fluctuation of any single type of raw Chinese herbs materially affects our results of operations and financial condition.

The prices and availability of different types of raw Chinese herbs may vary from period to period primarily due to factors such as the growth cycles of relevant Chinese herbs, market conditions and our bargaining power with suppliers. We are exposed to the market risk of price fluctuation of raw Chinese herbs, and fluctuation in such prices may cause fluctuation in our cost of sales. Raw Chinese herbs required for the manufacture of our major products are readily available in the market. Certain raw Chinese herbs required for the manufacture of some of our products can only be sourced from a limited number of suppliers. In order to reduce the impact of increases in raw material prices and control our procurement costs, we have sourced our raw materials from multiple suppliers in the PRC and centralised our procurement of raw materials, leveraging on our economies of scale operations in our negotiations with suppliers. We have established our pricing adjustment system which responds to the price fluctuation of raw Chinese herbs in the market. When there is any significant price fluctuation of certain raw Chinese herbs, we adjust the relevant CCMG product prices after one month's notice to customers. We closely monitor the market conditions for raw Chinese herbs and make adjustments where necessary. We have also adjusted the mix of our suppliers, improved our procurement management and enhanced the efficiency of our procurement process. Furthermore, we plan to increase our inventories of raw Chinese herbs which are not readily available and construct a customised warehouse specifically designed for the storage of these raw Chinese herbs for a long period of time without compromising their quality and curative efficacy. These measures have helped us reduce our exposure to price fluctuations, ensure the quality of raw materials we procure, and reduce our procurement-related management and administrative expenses.

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Based on the extent of fluctuation in raw material costs during the Track Record Period, for illustrative purposes only, the following table shows the sensitivity of our overall gross profit during the Track Record Period with regard to certain possible changes in the cost of raw materials during the same period, assuming all other variables remain constant:

	Changes in our overall gross profit		
	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in cost of raw materials:			
-20%	11,935	14,291	16,511
-15%	8,952	10,718	12,383
-10%	5,968	7,145	8,255
10%	(5,968)	(7,145)	(8,255)
15%	(8,952)	(10,718)	(12,383)
20%	(11,935)	(14,291)	(16,511)

For the illustrative purposes of breakeven analysis only, for the years ended 31 December 2012, 2013 and 2014, if the cost of raw materials had increased by 309.3%, 306.8% and 281.2%, respectively, our overall gross profit for the same periods would have been nil, assuming all other variables remain constant.

Preferential Tax Treatment for Our PRC Operations

A significant portion of our businesses is carried out in the PRC and revenue from the sales of our CCMG products in the PRC contributed materially to our total revenue during the Track Record Period. PRC preferential tax treatment historically has had a material effect on our financial performance and results of operations. The standard EIT rate applicable to the PRC subsidiary is 25.0%. Our PRC operating subsidiary, PuraPharm Nanning, was entitled to certain preferential income tax rates as granted by relevant tax authorities during the Track Record Period. PuraPharm Nanning has been qualified as “High and New Technology Enterprises” under the EIT and was entitled to the preferential EIT rate of 15% on its estimated assessable profits for the years ended 31 December 2012 and 2013. PuraPharm Nanning has duly filed required documents on its ongoing entitlement to the preferential EIT rate of 15% on its estimated assessable profits for the year ended 31 December 2014, and the required documents are currently under the review of relevant authorities. In accordance with the PRC tax laws and regulations and the recent changes to the review procedure, the relevant authorities are expected to grant such preferential treatment by the end of September 2015. Our Directors confirm that we have completed the relevant filing procedure for the preferential EIT rate of 15%, and based on the fact that our high-technology enterprise certificate was valid in 2014, our Directors expect that PuraPharm Nanning will be entitled to the preferential EIT rate for the financial year 2014. Furthermore, pursuant to the relevant favourable government policy and implementing rules, from 1 January 2008 to 31 December 2013, an enterprise that is registered in Guangxi Zhuang Autonomous Region and qualified as a “High and New Technology Enterprise” is entitled to the exemption of a portion of income tax paid to local government. As PuraPharm Nanning met such

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requirements, it enjoyed a further 40% deduction from the preferential EIT rate of 15.0%, which resulted in a preferential EIT rate of 9.0%, on its estimated assessable profits for the years ended 31 December 2012 and 2013. Please refer to the subsection headed “— Discussion of Selected Items from the Consolidated Statements of Profit or Loss — Income Tax Expense” in this section and the section headed “Regulations — PRC Laws and Regulations Relating to Taxation” in this prospectus for further discussion. We expect to continue to enjoy reduced EIT rates as PuraPharm Nanning continues to be qualified as “High and New Technology Enterprise”.

However, preferential tax treatment granted to PuraPharm Nanning by government authorities is subject to review and could be adjusted or terminated. The discontinuation of any preferential tax treatment currently available to us will cause our effective tax rate to increase, which could have a material adverse effect on our results of operations. Please refer to the paragraph headed “Risk Factors — Risks Relating to Conducting Business in Hong Kong and the PRC — Any loss of or significant reduction in the preferential tax treatment and government grant we currently enjoy in the PRC or our non-compliance with the relevant PRC tax laws and regulations may negatively affect our financial condition” in this prospectus for further discussion.

Policies and Regulations of the TCM Industry

The TCM industry in Hong Kong and the PRC is highly regulated. Government policies and regulations and their implementation and enforcement have had, and are expected to continue to have, a material effect on the manufacture, sale and use of TCM products and therefore affect our results of operations. Please refer to the section headed “Regulations” in this prospectus for further discussion.

Favourable policies and incentives adopted by the PRC government in recent years to support the TCM industry have contributed and are expected to continue to contribute to an increase in market demand for CCMG products. As at 31 December 2014, the CFDA approved five companies to manufacture, distribute and sell CCMG products in the PRC. Moreover, CCMG products have been included in the coverage of medical insurance reimbursement systems in a number of municipalities, provinces and regions in China. In addition, the Hong Kong government has set up the Chinese Medicine Council of Hong Kong and the relevant task forces for the regulating of the TCM industry in Hong Kong. The Chinese Medicine Ordinance has also been enacted to regulate the practice of Chinese medicines in Hong Kong.

Changes in policies and regulations may materially and adversely affect our results of operations. In addition, we are required to comply with various quality standards and requirements set forth in the Chinese Pharmacopoeia and other relevant regulations. Changes in such standards and requirements could cause us to incur substantial compliance costs and may affect our ability to supply sufficient products to meet market demand in a timely manner.

Seasonality

We have historically experienced relatively higher sales of our CCMG products in the PRC in the second half of each year (particularly in the fourth quarter) as compared to those in the first half of that year. This seasonality is the result of a combination of several factors. Our sales of CCMG products in the PRC have increased progressively during the course of each year as a result of increasing customer demand for our CCMG products. In addition, we typically experience relatively

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lower sales of our CCMG products in the PRC in the first quarter due to reduced business activity around the Chinese New Year holiday as our direct sales customers and distributors place their orders for the first quarter of each year generally in the fourth quarter of the previous year. As a result, the inventory levels and trade payables of our CCMG products in the PRC are typically at relatively higher levels before our peak season sales in the fourth quarter of each year, and revenue from the sales of our CCMG products in the PRC is relatively higher in the fourth quarter. In particular, for the years ended 31 December 2012, 2013 and 2014, sales of our CCMG product in the PRC in the fourth quarter of each year accounted for 38.9%, 37.9% and 34.9% of our total sales of CCMG products in the PRC for the same years, respectively.

BASIS OF PRESENTATION

Pursuant to the Reorganisation as explained in the section headed “History, Reorganisation and Corporate Structure” in this prospectus, our Company became the holding company of the companies now comprising our Group on 30 April 2012. These group companies were under the common control of PuraPharm Corp. before and after the Reorganisation. Accordingly, the financial information in this prospectus has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

- *Sale of goods.* Revenue is recognised when the significant risks and rewards of ownership have been transferred to a buyer, provided that we maintain no managerial involvement to the degree usually associated with ownership and no effective control over the goods sold.
- *Rendering of services.* Revenue is recognised when relevant services have been rendered and it is probable that economic benefits will flow to us and the revenue can be measured reliably.
- *Interest income.* Revenue is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of a financial instrument, or a shorter period, when appropriate, to the net carrying amount of a financial asset.

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In our preparation of the consolidated financial statements in accordance with HKFRSs, we have made judgements, estimates and assumptions that affect each reported amount relating to our assets and liabilities at the end of each financial period, as well as each reported amounts relating to our income and expenses during each financial period. We continually evaluate these estimates based on our own historical experience, knowledge and assessment of our current business and other conditions, our expectations regarding the future based on available information and our best assumptions.

When reviewing our consolidated financial statements, you should consider these factors: (i) our selection of critical accounting policies; (ii) the judgement and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in relevant conditions and assumptions. The accounting policies involving the most significant judgement and estimation for the preparation of our consolidated financial statements are set out below:

Deferred Tax Assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Useful Lives and Residual Values of Property, Plant and Equipment

In determining the useful life and residual value of an item of property, plant and equipment, we consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on our experience with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

We calculate depreciation on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.5% to 9%
Leasehold improvements	Over the shorter of the lease terms and 20%
Machineries and equipment	4.5% to 30%
Office equipment and furniture	9% to 30%
Motor vehicles	9% to 20%

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Impairment of Trade and Other Receivables

Our policy for provision for impairment loss is based on the evaluation of collectability, the aged analysis of trade and other receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Write-down of Inventories to Net Realisable Value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the provision required involves our management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed.

Impairment of Available-for-sale Financial Assets

We classify certain assets as available for sale and recognise movements of their fair values in equity. When the fair value declines, our management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the consolidated statements of profit or loss.

Withholding Taxes arising from the Distributions of Dividends

Our determination as to whether to accrue for withholding taxes arising from the distribution of dividends from a subsidiary according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether the subsidiary of our Group is determined to be Chinese resident enterprise by the PRC governing tax authorities in the future. Our management considered that it is not probable that our PRC subsidiary will distribute retained profits in the foreseeable future, and accordingly no provision for withholding tax was made as at the end of each year during the Track Record Period. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

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RESULTS OF OUR OPERATIONS

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

Consolidated Statements of Profit or Loss

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	287,811	342,303	366,352
Cost of sales	(103,210)	(123,086)	(134,241)
GROSS PROFIT	184,601	219,217	232,111
Other income and gains	13,996	7,956	5,794
Selling and distribution expenses	(78,166)	(101,940)	(99,176)
Administrative expenses	(54,628)	(79,711)	(81,028)
Other expenses	(4,791)	(2,683)	(2,307)
Finance costs	(10,959)	(13,149)	(13,064)
PROFIT BEFORE TAX	50,053	29,690	42,330
Income tax expense	(5,911)	(3,399)	(7,823)
PROFIT FOR THE YEAR	<u>44,142</u>	<u>26,291</u>	<u>34,507</u>
Attributable to:			
Owners of the parent	44,094	26,264	34,463
Non-controlling interests	48	27	44
	<u>44,142</u>	<u>26,291</u>	<u>34,507</u>

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

We generate our revenue primarily from the sales of our CCMG products and Chinese healthcare products in Hong Kong and the PRC. Revenue from the sales of our products represents the net invoiced value of goods sold, after deducting allowances for return, trade discounts and rebates. It is generally recognised when our customers have received our products. In addition, we derive a very small portion of our revenue from service income through our Nong's® (農本方)® Chinese medicine clinics in Hong Kong, the revenue recognition of which is explained below. Our revenue increased from HK\$287.8 million for the year ended 31 December 2012 to HK\$342.3 million for the year ended 31 December 2013, and further to HK\$366.4 million for the year ended 31 December 2014, representing a 2012-2014 CAGR of 12.8%.

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The following table sets forth a breakdown of our revenue by business segment, region and sales channel for the periods indicated.

	Year ended 31 December					
	2012		2013		2014	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	<i>HK\$'000</i>		<i>HK\$'000</i>		<i>HK\$'000</i>	
CCMG product sales	243,800	84.7%	307,072	89.7%	324,825	88.7%
<i>Hong Kong</i>						
Direct sales	118,148	41.0%	132,885	38.8%	145,234	39.7%
Product sales through Chinese medicine clinics	2,169	0.8%	2,432	0.7%	4,351	1.2%
<i>PRC</i>						
Sales to distributors	87,275	30.3%	95,148	27.8%	94,103	25.7%
Direct sales	36,208	12.6%	76,607	22.4%	81,137	22.1%
Chinese healthcare product sales	43,359	15.1%	34,565	10.1%	40,069	10.9%
<i>Hong Kong</i>						
Direct sales	33,764	11.7%	31,503	9.2%	38,511	10.5%
Sales to distributors	6,809	2.4%	579	0.2%	1,474	0.4%
<i>PRC</i>						
Direct sales	2,786	1.0%	2,483	0.7%	84	0.0%
Subtotal	<u>287,159</u>	99.8%	<u>341,637</u>	99.8%	<u>364,894</u>	99.6%
Service income through Chinese medicine clinics	652	0.2%	666	0.2%	1,458	0.4%
TOTAL	<u>287,811</u>	100.0%	<u>342,303</u>	100.0%	<u>366,352</u>	100.0%

CCMG Product Sales

Revenue from our CCMG product sales segment is generated primarily from the sales of our CCMG products in the following sales channels: (i) direct sales to our customers comprising hospitals, Chinese medicine clinics, non-profit organisations and private Chinese medicine practitioners in Hong Kong; (ii) sales to our distributors in the PRC; and (iii) direct sales to our customers comprising approved hospitals and medical institutions for their clinical use in the PRC. Revenue from our CCMG product sales segment increased from HK\$243.8 million for the year ended 31 December 2012 to HK\$307.1 million for the year ended 31 December 2013, and further to HK\$324.8 million for the year ended 31 December 2014, representing a 2012-2014 CAGR of 15.4%, which was primarily attributable to increases in revenues from the sales channels in this segment as explained below:

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Direct Sales in Hong Kong

During the Track Record Period, revenue from the direct sales of our CCMG products in Hong Kong generally increased, primarily attributable to: (i) an increase in sales volume of our CCMG products to Chinese medicine clinics and practitioners in the private sector, primarily because an increasing number of such customers recognised the benefits of our products as a result of our brand awareness and made purchases accordingly; and (ii) a continuous increase in sales volume of our CCMG products to public hospitals, Chinese medicine clinics and non-profit organisations who prescribe more of our products to patients catering for rising market demand.

Product Sales through Chinese Medicine Clinics in Hong Kong

Revenue from product sales through our Nong's® (農本方)® Chinese medicine clinics is recognised when patients have received the prescribed CCMG products. During the Track Record Period, revenue from product sales through our Nong's® (農本方)® Chinese medicine clinics in Hong Kong generally increased, primarily attributable to an increase in sales volume of our CCMG products as we increased the total number of our Nong's® (農本方)® Chinese medicine clinics in operation in Hong Kong from two as at 31 December 2012 and 2013 to seven as at 31 December 2014 and Chinese medicine practitioners prescribed more of our CCMG products to patients catering for rising market demand.

Sales to Distributors in the PRC

During the Track Record Period, revenue from the sales of our CCMG products to distributors in the PRC generally increased, primarily attributable to an increase in sales volume of our CCMG products to certain distributors who sold more of our CCMG products to approved hospitals and medical institutions in the PRC in 2013, whereas the relevant product prices remained relatively stable during such period.

Direct Sales in the PRC

During the Track Record Period, revenue from the direct sales of our CCMG products in the PRC generally increased, primarily attributable to an increase in sales volume of our CCMG products to approved hospitals and medical institutions as the total number of our direct sales customers in the PRC increased from 46 as at 31 December 2012 to 81 as at 31 December 2014 and our existing customers prescribed more of our products to patients, whereas the relevant product prices remained relatively stable during such period.

Chinese Healthcare Product Sales

Revenue from our Chinese healthcare product sales segment is generated primarily from the direct sales of our Chinese healthcare products to our customers comprising major pharmacy chain stores, pharmacy stores, clinics and individual end consumers in Hong Kong. Revenue from our Chinese healthcare product sales segment decreased from HK\$43.4 million for the year ended 31

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December 2012 to HK\$34.6 million for the year ended 31 December 2013, which then increased to HK\$40.1 million for the year ended 31 December 2014, primarily attributable to increases in revenues from the sales channels in this segment as explained below:

Direct Sales in Hong Kong

Revenue from the direct sales of our Chinese healthcare products in Hong Kong decreased from HK\$33.8 million for the year ended 31 December 2012 to HK\$31.5 million for the year ended 31 December 2013, primarily attributable to a decrease in the sales of our PuraGold® (金靈芝)® product to certain pharmacy chain stores (such as Watsons and CR Care) mainly as we devoted more of our marketing resources to promote Nong's® Formula (農本方®沖劑) series of Chinese healthcare products in 2013. Revenue from the direct sales of our Chinese healthcare products in Hong Kong increased from HK\$31.5 million for the year ended 31 December 2013 to HK\$38.5 million for the year ended 31 December 2014, primarily attributable to an increase in the sales of our Oncozac® (安固生)® and Nong's® Formula (農本方®沖劑) products to pharmacy chain stores as we carried out promotional and marketing activities to increase the brand awareness of our Chinese healthcare products.

Sales to Distributors in Hong Kong

Revenue from sales to our distributors in Hong Kong decreased from HK\$6.8 million for the year ended 31 December 2012 to HK\$0.6 million for the year ended 31 December 2013, primarily attributable to a decrease in the sales of our PuraGold® (金靈芝)® product to our distributors in Hong Kong in 2013 as we devoted more of our marketing resources to promote our direct sales in Hong Kong. Revenue from sales to our distributors in Hong Kong increased from HK\$0.6 million for the year ended 31 December 2013 to HK\$1.5 million for the year ended 31 December 2014, primarily attributable to an increase in the sales of our PuraGold® (金靈芝)® product to our distributors in Hong Kong as they sold a greater quantity of such product to end consumers in 2014.

Direct Sales in the PRC

During the Track Record Period, revenue from the direct sales of our Chinese healthcare products in the PRC generally decreased, primarily because we repositioned our products and distribution channels for strategic growth in the future.

Service Income through Chinese Medicine Clinics in Hong Kong

Revenue from service income through our Nong's® (農本方)® Chinese medicine clinics is recognised when Chinese medicine practitioners have rendered diagnostic services to patients. During the Track Record Period, revenue from service income through our Nong's® (農本方)® Chinese medicine clinics in Hong Kong generally increased, primarily because we established more of such Chinese medicine clinics across Hong Kong in 2014 and Chinese medicine practitioners provided diagnostic services to more patients to meet their rising demand.

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Product Sales in Hong Kong

Our revenue from our product sales in Hong Kong increased from HK\$160.9 million for the year ended 31 December 2012 to HK\$167.4 million for the year ended 31 December 2013, and further to HK\$189.6 million for the year ended 31 December 2014, representing a CAGR of 8.5% during the period from 2012 to 2014. Such growth was primarily due to an increase in our CCMG product sales to direct sales customers during the Track Record Period and an increase in our Chinese healthcare product sales to direct sales customers in Hong Kong in 2014.

As an increasing number of customers recognised the benefits of our CCMG products as a result of our strong brand recognition in Hong Kong, the sales volume of our CCMG products to Chinese medicine clinics and practitioners in the private and public sectors increased during the Track Record Period, which led to our increased CCMG product sales in Hong Kong. In addition, we increased the total number of our Nong's® (農本方®) Chinese medicine clinics in operation in Hong Kong from two as at 31 December 2012 and 2013 to seven as at 31 December 2014 and Chinese medicine practitioners prescribed more of our CCMG products to patients in Hong Kong in 2014. As a result, the sales volume of our CCMG products through our Chinese medicine clinics in Hong Kong increased, which also led to our increased CCMG product sales in Hong Kong. Moreover, the marketing campaign adopted by our marketing and sales team for the promotion of our Chinese healthcare products, in the form of mass advertising, print advertisements, online marketing and direct marketing channels, successfully promoted our premium Chinese healthcare products, such as Oncozac (安固生), Nong's® Formula (農本方®沖劑) and PuraGold (金靈芝) products, in Hong Kong. We also organised promotional campaigns and sponsored events for paramedical and medical professionals and targeted consumer groups. As a result, the sales volume of our premium Chinese healthcare products to pharmacy chain stores increased in 2014, which led to our increased Chinese healthcare product sales in Hong Kong.

Product Sales in the PRC

Our revenue from the sales of our products in the PRC increased from HK\$126.3 million for the year ended 31 December 2012 to HK\$174.2 million for the year ended 31 December 2013, and further to HK\$175.3 million for the year ended 31 December 2014, representing a CAGR of 17.8% during this period from 2012 to 2014. Such growth was primarily attributable to increases in CCMG product sales to our distributors as well as to direct sales customers in the PRC during the Track Record Period. Our marketing and sales team, distributors and third party consultants have carried out a series of activities to expand our business and increase our product sales in different sales channels in the PRC.

Our marketing and sales team for CCMG products regularly meets with our existing direct sales customers mainly located in the Guangxi Zhuang Autonomous Region and organises informational seminars and training sessions for Chinese medical professionals to promote the usage of our products. We also prepare and distribute promotional materials on our CCMG products and CMCMS, which are specifically tailored to our target customer groups. Third party consultants were also engaged in business development activities and maintenance of client relationship, including: (i) conducting research on potential business opportunities and target markets nationwide, and acquiring a good understanding of the market conditions, competition and hospital operation of different sales regions in the PRC; (ii) making site visits to potential distributors, hospitals and medical institutions for the

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purpose of new customer development, and assessing future product sales to be made to new customers in different sales regions in the PRC; (iii) identifying and referring to us new distributors which have established distribution channels and resources as well as suitable qualifications for the expansion of our distribution network in our new target markets; and (iv) carrying out customer visits to ensure the proper usage of our products and CMCMS at customer sites outside the Guangxi Zhuang Autonomous Region. Furthermore, through our regular monitoring of the product purchases, sales amounts and inventory levels of CCMG products for our distributors and their customers, we have consolidated our distribution network and terminated non-performing distributors.

We appointed 47 new distributors and terminated 50 non-performing distributors during the Track Record Period in order to focus on our relationship with our better-performing distributors. Such better-performing distributors include both new and existing distributors that have established good relationships with hospitals and medical institutions in the PRC. We leverage our distributors' resources and sales coverage to expand our business and distribution network into our new target cities and increase our CCMG product sales in the PRC. We believe our better-performing distributors had closer working relationships with the relevant hospitals and medical institutions managed by them as they make more frequent visits to those hospitals and medical institutions and provide well trained dispensers and repair service engineers that can quickly provide technical assistance to the hospitals and medical institutions regarding the operations of our CMCMS. In addition, we believe our better-performing distributors have a better understanding of our products, our operation and sales program which helps to increase the confidence of doctors prescribing our products. During the Track Record Period, our distributors made arrangements, with our assistance, for senior hospital staff and doctors to visit our production facility in Nanning to enhance their understanding of our Group and to provide them with confidence in the safety and efficacy of our products. In addition, our marketing and sales team and distributors promote and support the establishment of new Chinese medicine dispensaries, where our CCMG products are prescribed and sold to patients, in approved hospitals and medical institutions in the PRC. In the case of our direct sales to customers, we provide and install our CMCMS at the Chinese medicine dispensaries in approved hospitals and medical institutions and conduct on-site trainings for hospital personnel. In the case of our indirect sales through distributors, we provide and install our CMCMS through distributors at the Chinese medicine dispensaries in approved hospitals and medical institutions.

In order to enable these distributors to perform better, we have organized the following activities to focus our service and attention to them by way of (i) making more frequent contacts with them to understand their problems and helping them to resolve operational issues; (ii) keep them updated on the latest developments of our products and sale program; (iii) providing regular training to their staff regarding our products and the operation of the CMCMS; (iv) enhancing our technical service to them including repairs and maintenance to the CMCMS; (v) organizing marketing sessions for their staff; and (vi) arranging senior staff of the hospitals and medical institutions served by these distributors to visit our production facility in Nanning to understand the manufacturing of our products as well as our quality control measures.

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Cost of Sales, Gross Profit and Gross Profit Margin

Overview

Our cost of sales consists of the two categories: (i) costs incurred for the sale of our CCMG products and Chinese healthcare products; and (ii) cost incurred in relation to service income through our Nong's® (農本方)® Chinese medicine clinics. Costs of product sales consist of cost of raw materials, cost of package materials, subcontracting processing charges, labour costs, utilities, production overhead, depreciation and amortisation and provision of inventory. Cost of raw materials primarily consists of costs incurred for the purchase of raw materials and consumables used in our production. Cost of packaging materials consists primarily of cost of printed cardboard boxes, aluminium foil packages, bottles and others for packaging of our products. Labour costs primarily consist of compensation and benefits we provide to our production employees. Depreciation and amortisation include primarily depreciation of property, plant and equipment, as well as amortisation of intangibles, which are used in our production. Production overhead includes primarily maintenance cost, warehouse expenses, transportation fees and inspection fees.

The following table sets forth a breakdown of our overall cost of sales for the periods indicated.

	Year ended 31 December					
	2012		2013		2014	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Cost of product sales						
Cost of raw materials	59,677	57.8	71,454	58.1	82,554	61.5
Cost of packaging materials	10,598	10.3	12,277	10.0	16,565	12.3
Subcontracting processing charges.....	4,630	4.5	4,788	3.9	4,541	3.4
Labour costs	10,186	9.9	13,751	11.1	13,625	10.1
Utilities	8,540	8.3	8,717	7.0	8,816	6.6
Production overhead	4,220	4.0	4,052	3.3	2,271	1.7
Depreciation and amortisation	2,572	2.5	3,560	2.9	3,072	2.3
Provision of inventory	2,469	2.4	4,174	3.4	2,137	1.6
Subtotal	<u>102,892</u>	<u>99.7</u>	<u>122,773</u>	<u>99.7</u>	<u>133,581</u>	<u>99.5</u>
Cost of service income	<u>318</u>	<u>0.3</u>	<u>313</u>	<u>0.3</u>	<u>660</u>	<u>0.5</u>
TOTAL	<u><u>103,210</u></u>	<u><u>100.0</u></u>	<u><u>123,086</u></u>	<u><u>100.0</u></u>	<u><u>134,241</u></u>	<u><u>100.0</u></u>

For the years ended 31 December 2012, 2013 and 2014, our overall cost of sales was approximately 35.9%, 36.0% and 36.6% of our total revenue for the same periods, respectively.

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Our overall gross profit, which equals total revenue less overall cost of sales, increased from HK\$184.6 million for the year ended 31 December 2012 to HK\$219.2 million for the year ended 31 December 2013, further to HK\$232.1 million for the year ended 31 December 2014, representing a 2012-2014 CAGR of 12.1%, primarily attributable to increases in gross profits from our business segments as further explained below.

Our overall gross profit margin, which equals overall gross profit divided by total revenue, remained relatively stable from 64.1% for the year ended 31 December 2012 to 64.0% for the year ended 31 December 2013, further to 63.4% for the year ended 31 December 2014, primarily attributable to the changes in gross profit margins of our business segments as further explained below.

The following table sets forth a breakdown of gross profit and gross profit margin in respect of our product sales by segment, region and sales channel for the periods indicated.

	Year ended 31 December					
	2012		2013		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
CCMG product sales	150,936	61.9	194,127	63.2	202,587	62.4
<i>Hong Kong</i>						
Direct sales	79,628	67.4	88,204	66.4	93,536	64.4
Product sales through Chinese medicine clinics ...	1,851	85.3	2,077	85.4	3,735	85.8
<i>PRC</i>						
Sales to distributors	42,640	48.9	47,173	49.6	46,912	49.9
Direct sales	26,817	74.1	56,673	74.0	58,404	72.0
Chinese healthcare product sales	33,331	76.9	24,737	71.6	28,726	71.7
<i>Hong Kong</i>						
Direct sales	26,702	79.1	22,592	71.7	27,655	71.8
Sales to distributors	4,673	68.6	397	68.6	1,011	68.6
<i>PRC</i>						
Direct sales	1,956	70.2	1,748	70.4	60	71.4

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	Year ended 31 December					
	2012		2013		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Service income through Chinese medicine clinics	334	51.2	353	53.0	798	54.7
Total gross profit/ Overall gross profit margin	184,601	64.1	219,217	64.0	232,111	63.4

Overall Summary

Gross profit margin of our direct sales segment is higher than that of distributor sales segment primarily because we sell our products to direct sales customers without involving an intermediary distributor. Gross profit margin of product sales through Chinese medicine clinics is higher than that of direct sales segment, primarily because Chinese medicine practitioners directly prescribe and sell our products to patients without involving any hospital or clinics. Gross profit margin of the CCMG product PRC direct sales segment is higher than that of the CCMG product Hong Kong direct sales segment, primarily because our CCMG products are sold in Hong Kong mainly through a price tendering process due to market competition, as well as the expenses incurred to transport CCMG products from our Nanning production base to Hong Kong.

In our Chinese healthcare product sales segment, the gross profit margin of our high-end Oncozac® (安固生)® product is relatively higher than that of other Chinese healthcare products primarily because this product commanded premium price as the sole ingredient in this product, ONCO-Z coriolus versicolor extract, was verified by USP as a dietary supplement ingredient and became the world's first TCM ingredient verified by the USP. The gross profit margin of our low-end Nong's® Formula (農本方®沖劑) products is relatively lower than that of other Chinese healthcare products, primarily because this product series was developed for the treatment of common illnesses and their selling prices are relatively low. The gross profit margin of our mid-end PuraGold® (金靈芝)® product is in the middle between these above two Chinese healthcare products.

CCMG Product Sales

Gross profit from our CCMG product sales segment generally increased during the Track Record Period, primarily attributable to increases in gross profits from the sales channels in this segment as further explained below.

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Gross profit margin of our CCMG product sales segment increased from 61.9% for the year ended 31 December 2012 to 63.2% for the year ended 31 December 2013. Gross profit margin of our CCMG product sales segment decreased slightly from 63.2% for the year ended 31 December 2013 to 62.4% for the year ended 31 December 2014. Such changes were primarily attributable to the changes in gross profit margins of the sales channels in this segment as further explained below:

Direct Sales in Hong Kong

Gross profit from our Hong Kong direct sales segment generally increased during the Track Record Period, primarily attributable to our increased sales volume of CCMG products to our customers in the private and public sectors in Hong Kong, while the relevant product prices remained relatively stable during such period.

Gross profit margin of our Hong Kong direct sales segment decreased from 67.4% for the year ended 31 December 2012 to 66.4% for the year ended 31 December 2013, further to 64.4% for the year ended 31 December 2014, primarily attributable to: (i) a decrease in selling prices of our CCMG products sold to our key customers (such as Tung Wah Group of Hospitals) in 2014 as we increased our price competitiveness to ensure that our key customers renewed tender contracts with us in that year; and (ii) a continuous increase in cost of raw materials mainly as a result of increased purchase prices of raw Chinese herbs and packaging materials during the Track Record Period.

Product Sales through Chinese Medicine Clinics in Hong Kong

Gross profit from our Hong Kong Chinese medicine clinic segment generally increased during the Track Record Period, primarily because we increased the total number of our Nong's® (農本方)® Chinese medicine clinics in operation in Hong Kong from two as at 31 December 2012 to seven as at 31 December 2014.

Gross profit margin of our Hong Kong Chinese medicine clinic segment remained relatively stable during the Track Record Period.

Sales to Distributors in the PRC

Gross profit from our PRC distributor sales segment generally increased during the Track Record Period, primarily attributable to our increased sales volume of CCMG products to better-performing distributors who sold more of our products to approved hospitals and medical institutions for clinical use in the PRC, while the relevant product prices remained relatively stable during such period.

Gross profit margin of our PRC distributor sales segment increased from 48.9% for the year ended 31 December 2012 to 49.6% for the year ended 31 December 2013, and further to 49.9% for the year ended 31 December 2014, primarily because we consolidated our distribution network in the PRC for higher efficiency with our total number of distributors decreasing from 112 as at 31 December 2012 to 95 as at 31 December 2014 and the revenue contribution by better-performing distributors, whose product sales had a relatively higher gross profit margin, increased during the Track Record Period.

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Direct Sales in the PRC

Gross profit from our PRC direct sales segment generally increased during the Track Record Period, primarily because the total number of direct sales customers in the PRC increased from 46 as at 31 December 2012 to 81 as at 31 December 2014 and the sales volume of our products to direct sales customers increased during the period, while the relevant product prices remained relatively stable during such period.

Gross profit margin of our PRC direct sales segment remained relatively stable from 74.1% for the year ended 31 December 2012 to 74.0% for the year ended 31 December 2013, and decreased to 72.0% for the year ended 31 December 2014, primarily attributable to a continuous increase in cost of raw materials during this period mainly as a result of increased purchase prices of raw Chinese herbs and packaging materials during the Track Record Period.

Chinese Healthcare Product Sales

Gross profit from our Chinese healthcare product sales segment decreased from HK\$33.3 million for the year ended 31 December 2012 to HK\$24.7 million for the year ended 31 December 2013, but then increased to HK\$28.7 million for the year ended 31 December 2014. Such changes were primarily attributable to increases in gross profits from the sales channels in this segment as further explained below.

Gross profit margin of our Chinese healthcare product sales segment decreased from 76.9% for the year ended 31 December 2012 to 71.6% for the year ended 31 December 2013, and remained relatively stable at 71.7% for the year ended 31 December 2014. Such changes were primarily attributable to the changes in gross profit margins of the sales channels in this segment as further explained below:

Direct Sales in Hong Kong

Gross profit from our Hong Kong direct sales segment decreased from HK\$26.7 million for the year ended 31 December 2012 to HK\$22.6 million for the year ended 31 December 2013, primarily attributable to our decreased sales of PuraGold® (金靈芝)® product to certain pharmacy chain stores in 2013 as we devoted more of our marketing resources to promote the direct sales of our Nong's® Formula (農本方®沖劑) products in Hong Kong in order to diversify our product portfolio and take advantage of market opportunities. Gross profit from our Hong Kong direct sales segment increased from HK\$22.6 million for the year ended 31 December 2013 to HK\$27.7 million for the year ended 31 December 2014, primarily attributable to an increase in sales volume of our Oncozac® (安固生)® and Nong's® Formula (農本方®沖劑) products to pharmacy chain stores due to our promotional and marketing activities, while the relevant product prices remained relatively stable during the Track Record Period.

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Gross profit margin of our Hong Kong direct sales segment decreased slightly from 79.1% for the year ended 31 December 2012 to 71.7% for the year ended 31 December 2013, and remained relatively stable at 71.8% for the year ended 31 December 2014. Such changes during the Track Record Period were primarily attributable to our decreased sales of PuraGold® (金靈芝)® product, which has a relatively higher gross profit margin, to certain pharmacy chain stores in 2013.

Sales to Distributors in Hong Kong

Gross profit from our Hong Kong distributor sales segment decreased from HK\$4.7 million for the year ended 31 December 2012 to HK\$397,000 for the year ended 31 December 2013, primarily because we focused more marketing resources primarily on the sales of Chinese healthcare products mainly in Hong Kong in 2013. Gross profit from our Hong Kong distributor sales segment increased from HK\$397,000 for the year ended 31 December 2013 to HK\$1.0 million for the year ended 31 December 2014, primarily attributable to our increased sales volume of PuraGold® (金靈芝)® product to Hong Kong distributors as they sold a greater quantity of such product to end consumers, while the relevant product prices remained relatively stable during the Track Record Period.

Gross profit margin of our Hong Kong distributor sales segment remained relatively stable at 68.6% for the years ended 31 December 2012, 2013 and 2014.

Direct Sales in the PRC

Gross profit from our PRC direct sales segment generally decreased during the Track Record Period, mainly because we repositioned our products and distribution channels for strategic growth in the future.

Gross profit margin of our PRC direct sales segment remained relatively stable during the Track Record Period.

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Other Income and Gains

Our other income and gains consist primarily of government grants, gain from the sales of equipment and accessories to our customers comprising hospitals, Chinese medicine clinics and non-profit organisations in Hong Kong, and gain on disposal of subsidiaries. The following table sets forth a breakdown of the major components of our other income and gains for the periods indicated.

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Government grants	4,643	4,308	3,663
Gain from the sale of equipment and accessories	1,585	1,205	429
Gain on disposal of subsidiaries	7,408	1,205	—
Foreign exchange gain, net	—	—	780
Bank interest income	81	255	714
Others	279	983	208
Total	13,996	7,956	5,794

During the Track Record Period, we received government grants from the relevant authorities in the PRC. Government grants consist primarily of compensation for our research and development costs, grants for improvement of our research facilities in relation to specific projects assigned to us by the relevant authorities, and subsidies in recognition of our achievements.

When a government grant is provided on an unconditional basis to recognise our achievement in a certain aspect, we recognise it as other income in our consolidated statements of profit or loss upon our receipt of such grant. When a government grant is provided conditional for a specific project assigned to us by the relevant authorities, we first record such grant as liability in our statement of financial position. Based on the completion of each project phase, we further recognise the corresponding part of such grant as other income and gains in our consolidated statements of profit or loss. It is in the sole discretion of relevant authorities to decide whether and when to provide government grants to our Group. Going forward, we expect to continue to receive government grants from the relevant authorities in the PRC.

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Selling and Distribution Expenses

Our selling and distribution expenses consist primarily of advertising and promotion expenses, sales and marketing staff costs, delivery and storage costs, depreciation expense, travel and business development expenses, and sales and marketing departmental expenses. The table below sets forth a breakdown of the major components of our selling and distribution expenses for the periods indicated.

	Year ended 31 December					
	2012		2013		2014	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Advertising and promotion expenses	33,130	42.3	52,491	51.6	50,172	50.6
Staff costs.....	21,910	28.0	24,399	23.9	24,511	24.7
Delivery and storage costs.....	9,895	12.7	10,318	10.1	10,794	10.9
Depreciation	4,354	5.6	4,929	4.8	5,615	5.7
Travelling and business development expenses.	5,293	6.8	6,632	6.5	5,362	5.4
Sales and marketing departmental expenses.....	3,584	4.6	3,171	3.1	2,722	2.7
Total.....	<u>78,166</u>	<u>100.0</u>	<u>101,940</u>	<u>100.0</u>	<u>99,176</u>	<u>100.0</u>

Advertising and promotion expenses consist primarily of fees associated with advertisements placed in various media outlets, expenses incurred in conducting marketing and other promotional activities for our products, promotional CCMG products to our customers of non-profit organisations and fees paid to third party consultants for business development, client relationship development as well as sales planning and marketing in the PRC. Staff costs consist primarily of salaries, commission and benefits for our in-house sales and marketing personnel. Delivery and storage costs consist primarily of the fees paid to the Hong Kong logistic service providers for their storage and product delivery services, costs incurred for delivery of our products from our manufacturing facilities to customers, and storage fees. Depreciation represents the depreciation cost of our CMCMS which we provide to our customers in the PRC. Travelling and business development expenses consist primarily of travel and communication expenses for our sales and marketing staff, and expenses incurred for attending business meetings and conferences by sales and marketing staff, as well as reception expenses. Sales and marketing departmental expenses consist primarily of rental and administrative expenses of our sales offices, and other miscellaneous expenses for sales and distribution of our products.

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For the years ended 31 December 2012 and 2013, our advertising and promotion expenses included a payment of approximately RMB12.6 million and RMB3.8 million to our first third party consultant in connection with his business development services to support our efforts in developing new customer relationships and maintaining existing customer relationships in China. The consultancy arrangement was terminated in August 2013 due to his personal retirement plan. We also appointed this consultant to serve as a director of our PRC operating subsidiary, PuraPharm Nanning, since August 1998 and as a director of our BVI intermediate holding company, Nong's Corporation, since March 2005. Notwithstanding the termination of the consultancy arrangement in August 2013, we have continued his appointment as a director of PuraPharm Nanning in order to leverage on his network of business contacts in Guangxi Zhuang Autonomous Region, as well as his appointment as a director of Nong's Corporation. Although he is currently a director of PuraPharm Nanning and Nong's Corporation, he is not involved in the daily operations and management of these two companies. After we were notified of our first third party consultant's intention to retire, we engaged another third party consultant in January 2013. During the Track Record Period, we engaged two third party consultants for our business development in the PRC and for the years ended 31 December 2012, 2013 and 2014, our advertising and promotion expenses included a fee of approximately RMB12.6 million, RMB26.9 million and RMB30.4 million respectively to such third party consultants. The increase in the fee paid to the third party consultants during the Track Record Period was mainly due to the increase in the number of provinces/regions covered by such consultants from eight provinces/regions in 2012 to 17 provinces/regions in 2013 and the increase in monthly service fee in 2014. For the years ended 31 December 2012, 2013 and 2014, our third party consultants provided services to us in eight, 17 and 17 provinces/regions, respectively.

Our selling and distribution expenses generally increased during the Track Record Period, primarily attributable to: (i) an increase in advertising and promotion expenses as we advertised our Chinese healthcare products under Nong's® (農本方)® brand in Hong Kong and carried out more sales and marketing activities in the PRC to increase our product sales; and (ii) an increase in staff costs mainly as a result of the expansion of our sales and distribution network and our efforts to strengthen our marketing and sales team. For the years ended 31 December 2012, 2013 and 2014, our selling and distribution expenses were approximately 27.2%, 29.8% and 27.1% of our total revenue for the same periods, respectively.

During the Track Record Period, we engaged third party consultants to ensure proper usage of CMCMS and our products at customer sites and to conduct market research and to develop new customers. We determine the payment to our third party consultants mainly with reference to the following criteria based on arms' length commercial negotiation: (i) our supporting and servicing cost in Guangxi Zhuang Autonomous Region, which in turn is primarily based on the average operational cost we incur per hospital in Guangxi Zhuang Autonomous Region during the relevant period; (ii) the number and scale of hospitals covered in a particular province/region; (iii) objective operational circumstances, including but not limited to the average cost of living within a particular province/region; and (iv) referral of new customers. We believe the supporting and servicing cost per hospital in Guangxi Zhuang Autonomous Region is an appropriate primary reference for determining the monthly fee to third party consultants because of our track record of operating by direct sales in Guangxi Zhuang Autonomous Region, which we believe provided us with a good understanding of

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various core components of operational costs within our industry. We believe such amounts are reasonable based on our experience of conducting direct sales in Guangxi Zhuang Autonomous Region and taking into account the above criteria.

As we are a Hong Kong-based company with direct operation mainly in Guangxi Zhuang Autonomous Region, our Directors believe, with our limited resources and PRC exposure, the engagement of third party consultants is a cost effective way to penetrate into new markets and develop and maintain customers at an early stage of development. For each of the years during the Track Record Period, we had 25, 35 and 26 new PRC CCMG customers, respectively, among which seven, nine and six were referred by our third party consultants, respectively. Our revenue from new customers referred by third party consultants as a proportion of our total PRC CCMG revenue was 3.0%, 9.0% and 11.1%, for each of the three years ended 31 December 2012, 2013 and 2014, respectively. We do not focus only on revenue generation when engaging third party consultants, but also take into account the contribution to our marketing strategy and we seek to continue to develop and remain competitive in an industry that is still dominated by a limited number of players. We do not believe we are over-dependent on the third party consultants as (i) in the event that we cease to collaborate with a third party consultant, there would be no material adverse impact to us because we have direct sales contract with the distributors who are primarily responsible to place sales order to us and we have established direct communications with relevant hospitals and medical institutions; (ii) with our experience in replacing a retired third party consultant during the Track Record Period, we believe we are able to replace the maintenance and servicing functions of the third party consultants with a new party within a relatively short period of adequate training on our products and the usage of the CMCMS or by setting up our own operation when the business in a province/region justifies such action; and (iii) the new customers referred by the third party consultants only accounted for 3.0% to 11.1% of our total PRC CCMG sales in the Track Record Period.

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Administrative Expenses

Our administrative expenses primarily consist of administrative staff costs, research and development costs, rental expenses, legal and professional fees, listing expenses, office expenses, travelling expenses, insurance, consultancy fee, clinic management fee, depreciation and amortisation, provision for doubtful debts, and others. The following table sets forth a breakdown of the major components of our administrative expenses for the periods indicated.

	Year ended 31 December					
	2012		2013		2014	
	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>	<i>HK\$'000</i>	<i>% of total</i>
Staff costs	21,213	38.8	29,197	36.6	30,945	38.2
Research and development costs	8,272	15.1	16,142	20.3	16,133	19.9
Rental expenses	4,619	8.5	5,504	6.9	6,541	8.1
Legal and professional fee	1,699	3.1	3,005	3.8	2,413	3.0
Listing expenses	—	0.0	1,777	2.2	5,751	7.1
Office expenses	4,594	8.4	6,855	8.6	4,657	5.7
Travelling expenses	3,400	6.2	4,331	5.4	3,573	4.4
Insurance	934	1.7	1,149	1.4	1,308	1.6
Consultancy fee	1,401	2.6	1,838	2.3	1,270	1.6
Clinic management fee...	522	1.0	592	0.7	1,088	1.3
Depreciation and amortisation	3,226	5.9	3,128	3.9	3,378	4.2
Provision for doubtful debts	1,242	2.3	1,317	1.7	—	0.0
Others	3,506	6.4	4,876	6.2	3,971	4.9
Total	<u>54,628</u>	<u>100.0</u>	<u>79,711</u>	<u>100.0</u>	<u>81,028</u>	<u>100.0</u>

Staff costs consist primarily of salaries and employee benefit expenses for our management, administrative, finance and accounting staff. Research and development costs consist primarily of costs, expenses and fees incurred in relation to our research and product development activities. Rental expenses consist primarily of rental payments for our corporate headquarter offices and our Nong's® (農本方)® Chinese medicine clinics in Hong Kong. Legal and professional fees consist primarily of audit fee and fees paid to legal professionals for our business purposes. Listing expenses consist primarily of costs and fees incurred for the Global Offering. Office expenses consisted primarily of business administrative expenses, communication and reception expenses incurred by our administrative personnel, vehicle fees and utility fees. Travelling expenses consisted primarily of expenses incurred for attending business meetings, conferences and trainings by our administrative personnel. Insurance consist primarily of premiums and other expenses in relation to insurance policies for our business purposes. Consultancy fee consists mainly of fee payments to external IT consultants for maintenance and operation of our systems. Clinic management fees represent payments

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to Chinese medicine practitioners for their services in managing the daily operations of our Nong's® (農本方)® Chinese medicine clinics. Depreciation and amortisation are related primarily to office buildings, office equipment and intangible assets. Others include primarily maintenance fee and annual license fee for software, and other miscellaneous fees for general administrative purposes.

We incurred nil capitalized research and development cost during the Track Record Period. According to our accounting policy, all research costs are charged to the consolidated statements of profit or loss as incurred. Costs associated with research activities are recognised as an expense as incurred. Expenditure incurred on projects to develop new products is capitalised and recognised as intangible assets only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. We consider the research and development expenditures incurred during the Track Record Period did not fulfil some of the above conditions for capitalisation as intangible assets, such as the technical feasibility condition. As a result, we expensed all of the research and development expenditures incurred during the Track Record Period. For a discussion of relevant accounting policy, please refer to the subsection headed “2.4 Summary of Significant Accounting Policies” in the Accountants’ Report in Appendix I to this prospectus.

Our administrative expenses generally increased during the Track Record Period primarily attributable to: (i) an increase in administrative staff costs as we increased the employee headcount for our expanded business; (ii) an increase in research and development costs in relation to our research and product development activities; and (iii) an increase in listing expenses incurred for the Global Offering. For the years ended 31 December 2012, 2013 and 2014, our administrative expenses were approximately 19.0%, 23.3% and 22.1% of our total revenue for the same periods, respectively.

Other Expenses

Our other expenses consist primarily of net exchange differences on foreign currency transactions conducted by our PRC operating subsidiary, PuraPharm Nanning, fixed assets disposal loss, voluntary charity donations to local communities to fulfil our social responsibilities and miscellaneous expenses. During the Track Record Period, our other expenses decreased primarily attributable to a decrease in our voluntary charity donations in Hong Kong.

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Finance Costs

Our finance costs consist primarily of interest payments on bank loans and overdrafts, interest on loans from a director and interest on finance leases for motor vehicles. During the Track Record Period, our finance costs increased primarily attributable to an increase in interest on bank loans and overdrafts as a result of our increased bank loans for our expanded business. The following table sets forth a breakdown of the major components of our finance costs for the periods indicated.

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts.....	10,757	12,939	13,064
Interest on loans from a director.....	162	170	—
Interest on finance leases.....	<u>40</u>	<u>40</u>	<u>—</u>
Total	<u><u>10,959</u></u>	<u><u>13,149</u></u>	<u><u>13,064</u></u>

Profit before Tax

As a result of the foregoing, our overall profit before tax decreased by HK\$20.4 million, or by 40.7%, from HK\$50.1 million for the year ended 31 December 2012 to HK\$29.7 million for the year ended 31 December 2013. Our overall profit before tax increased by HK\$12.6 million, or by 42.6%, from HK\$29.7 million for the year ended 31 December 2013 to HK\$42.3 million for the year ended 31 December 2014. Please also refer to the subsection headed “— Key Financial Ratios” in this section for further discussion on the material factors affecting changes in our overall net profit margin during the Track Record Period.

In Note 10 to the Accountants' Report in Appendix I to this prospectus, a breakdown of the profit before tax for our subsidiaries based on the jurisdictions which they are domiciled and operate in, and derive profits from, is disclosed. Such jurisdictions include Hong Kong, the PRC and other overseas countries (such as BVI, Singapore, United States, Canada and Macau). Please also refer to the subsections headed “— Year Ended 31 December 2014 Compared to Year Ended 31 December 2013; Year Ended 31 December 2013 Compared to Year Ended 31 December 2012” in this section for further discussion on changes in the profit before tax for our subsidiaries by jurisdiction during the Track Record Period. We have adopted the cost plus method as the pricing mechanism for our intra-group sales under which we price our products based on relevant production costs plus a reasonable markup.

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Income Tax Expense

Income tax expenses consist primarily of the current income tax and deferred income tax at Hong Kong and the PRC statutory rates applicable to our assessable profit before taxation, respectively, as determined under relevant laws and regulations and the movement in deferred tax assets or liabilities recognised for the reporting periods. The following table sets forth a breakdown of the major components of our income tax expenses for the periods indicated:

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	5,578	6,040	8,010
Deferred income tax.....	<u>333</u>	<u>(2,641)</u>	<u>(187)</u>
Total	<u><u>5,911</u></u>	<u><u>3,399</u></u>	<u><u>7,823</u></u>

Cayman Islands Tax

The Cayman Islands currently levy no taxes on corporations based on profits, income, gains or appreciations. Therefore, we are not subject to any Cayman Islands income tax.

Hong Kong Profits Tax

Our Hong Kong subsidiaries are subject to income tax at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Track Record Period.

PRC Corporate Income Tax

Under the EIT, which became effective on 1 January 2008, all types of businesses are generally subject to a uniform tax rate of 25.0%.

Our PRC operating subsidiary, PuraPharm Nanning, was entitled to certain preferential income tax rates as granted by relevant tax authorities during the Track Record Period. PuraPharm Nanning has been qualified as “High and New Technology Enterprises” under the EIT and was entitled to the preferential EIT rate of 15.0% on its estimated assessable profits for the years ended 31 December 2012 and 2013. PuraPharm Nanning has duly filed required documents on its ongoing entitlement to the preferential EIT rate of 15.0% on its estimated assessable profits for the year ended 31 December 2014, and the required documents are currently under the review of relevant authorities. In accordance with the PRC tax laws and regulations and the recent changes to the review procedure, the relevant authorities are expected to grant such preferential treatment by the end of September 2015. Our Directors confirm that we have completed the relevant filing procedure for the preferential EIT rate of 15%, and based on the fact that our high-technology enterprise certificate was valid in 2014, our

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Directors expect that PuraPharm Nanning will be entitled to the preferential EIT rate for the financial year 2014. Furthermore, it enjoyed a further 40% deduction from the preferential EIT rate of 15.0%, or the preferential EIT rate of 9.0%, on the estimated assessable profits for the years ended 31 December 2012 and 2013.

Deferred Income Tax

Deferred tax is the tax expected to be payable or recoverable which is calculated as temporary difference between the tax bases of assets and liabilities and their carrying amounts in respect of government grants, unrealised profit on inventories, provisions and depreciable assets. Pursuant to the EIT Law, we are subject to the PRC dividend withholding tax at the applicable rate of 10% when and if undistributed earnings of our PRC subsidiary, PuraPharm Nanning, are declared to be distributed as dividends out of profits that arose on or after 1 January 2008. As at 31 December 2012, 2013 and 2014, no deferred tax was recognised for the PRC dividend withholding tax that would be payable on the undistributed earnings of PuraPharm Nanning which amounted to approximately HK\$46.9 million, HK\$73.1 million and HK\$96.3 million as at the same dates, respectively. Based on our future expansion plan in the PRC and the cash flow generated in Hong Kong as at the end of each year during the Track Record Period, our Directors are of the view that it is not probable that PuraPharm Nanning will distribute such earnings in the foreseeable future. Please also refer to Note 26 to the Accountants' Report in Appendix I to this prospectus for further details. For dividend payment of our Company (if any) to be decided and distributed in the future, our Directors consider that our Company may distribute from the distributable reserve of one of our Hong Kong operating subsidiaries.

Effective Tax Rate

As a result of the foregoing, our effective tax rate, representing income tax expense divided by profit before taxation, was 11.9%, 11.4% and 18.5% for the years ended 31 December 2012, 2013 and 2014, respectively. During the Track Record Period, we paid all relevant taxes in due and there were no material disputes or unresolved tax issued with the relevant tax authorities.

Year Ended 31 December 2014 Compared to Year Ended 31 December 2013

Revenue

Our total revenue increased by HK\$24.1 million, or 7.0%, from HK\$342.3 million for the year ended 31 December 2013 to HK\$366.4 million for the year ended 31 December 2014, primarily attributable to increases in revenues from our business segments as further explained below:

CCMG Product Sales

Revenue from the sales of our CCMG products increased by HK\$17.7 million, or 5.8%, from HK\$307.1 million for the year ended 31 December 2013 to HK\$324.8 million for the year ended 31

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December 2014. Such changes were primarily attributable to increases in revenues from the sales channels in this segment as further explained below:

- *Direct sales in Hong Kong.* Revenue from the direct sales of our CCMG products in Hong Kong increased by HK\$12.3 million, or 9.3%, from HK\$132.9 million for the year ended 31 December 2013 to HK\$145.2 million for the year ended 31 December 2014. The increase was primarily attributable to: (i) an increase in sales volume of our CCMG products to Chinese medicine clinics and practitioners in the private sector in 2014, primarily because an increasing number of such customers recognised the benefits of our products as a result of our brand awareness and made purchases accordingly; and (ii) a continuous increase in sales volume of our CCMG products to public hospitals, Chinese medicine clinics and non-profit organisations who prescribe more of our products to patients in 2014 due to rising market demand, while the relevant product prices remained relatively stable during such period.
- *Product sales through Chinese medicine clinics in Hong Kong.* Revenue from the sales of our CCMG products through our Nong's® (農本方)® Chinese medicine clinics in Hong Kong increased by HK\$2.0 million, or 78.9%, from HK\$2.4 million for the year ended 31 December 2013 to HK\$4.4 million for the year ended 31 December 2014. The increase was primarily attributable to an increase in sales volume of our CCMG products as we increased the total number of our Nong's® (農本方)® Chinese medicine clinics in operation in Hong Kong from two as at 31 December 2013 to seven as at 31 December 2014 and Chinese medicine practitioners prescribed more of our CCMG products to patients catering for rising market demand in Hong Kong in 2014.
- *Sales to distributors in the PRC.* Revenue from the distribution of our CCMG products in the PRC remained relatively stable, from HK\$95.1 million for the year ended 31 December 2013 to HK\$94.1 million for the year ended 31 December 2014, primarily because we consolidated our distribution network in the PRC for higher efficiency with our total number of distributors decreasing from 101 as at 31 December 2013 to 95 as at 31 December 2014.
- *Direct sales in the PRC.* Revenue from the direct sales of our CCMG products in the PRC increased by HK\$4.5 million, or 5.9%, from HK\$76.6 million for the year ended 31 December 2013 to HK\$81.1 million for the year ended 31 December 2014. The increase was primarily attributable to an increase in sales volume of our CCMG products to approved hospitals and medical institutions for clinical use as the total number of our direct sales customers in the PRC increased from 67 as at 31 December 2013 to 81 as at 31 December 2014 and our existing direct sales customers prescribed more of our products to patients in 2014.

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Chinese Healthcare Product Sales

Revenue from the sales of our Chinese healthcare products increased by HK\$5.5 million, or 15.9%, from HK\$34.6 million for the year ended 31 December 2013 to HK\$40.1 million for the year ended 31 December 2014. Such changes were primarily attributable to increases in revenues from the sales channels in this segment as further explained below:

- *Direct Sales in Hong Kong.* Revenue from the direct sales of our Chinese healthcare products in Hong Kong increased by HK\$7.0 million, or 22.2%, from HK\$31.5 million for the year ended 31 December 2013 to HK\$38.5 million for the year ended 31 December 2014, primarily attributable to an increase in the sales volume of our Oncozac® (安固生)® and Nong's® Formula (農本方®沖劑) products to pharmacy chain stores as we carried out promotional and marketing strategies to increase the brand awareness of our products, while the relevant product prices remained relatively stable during such period.
- *Sales to Distributors in Hong Kong.* Revenue from the sales of our Chinese healthcare products to distributors in Hong Kong increased by HK\$0.9 million, or 154.6%, from HK\$0.6 million for the year ended 31 December 2013 to HK\$1.5 million for the year ended 31 December 2014, primarily attributable to an increase in sales volume of our PuraGold® (金靈芝)® product to Hong Kong distributors as they sold a greater quantity of such product to end consumers in 2014, while the relevant product prices remained relatively stable during such period.
- *Direct Sales in the PRC.* Revenue from the direct sales of our Chinese healthcare products in the PRC decreased by HK\$2.4 million, or 96.6%, from HK\$2.5 million for the year ended 31 December 2013 to HK\$0.1 million for the year ended 31 December 2014, primarily because we repositioned our products and distribution channels for strategic growth in the future.

Service Income through Chinese Medicine Clinics in Hong Kong

Revenue from service income through our Nong's® (農本方)® Chinese medicine clinics in Hong Kong increased by HK\$0.8 million, or 118.9%, from HK\$0.7 million for the year ended 31 December 2013 to HK\$1.5 million for the year ended 31 December 2014. The increase was primarily due to an increase in the total number of our Nong's® (農本方)® Chinese medicine clinics in operation in Hong Kong from two as at 31 December 2013 to seven as at 31 December 2014 and Chinese medicine practitioners provided diagnostic services to more patients catering for rising market demand in Hong Kong.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by HK\$11.1 million, or 9.1%, from HK\$123.1 million for the year ended 31 December 2013 to HK\$134.2 million for the year ended 31 December 2014, primarily attributable to: (i) an increase of HK\$11.1 million in cost of raw material mainly as a result of increased purchase prices of raw Chinese herbs in the PRC; and (ii) an increase of HK\$4.3 million in cost of packaging materials mainly as a result of increased purchase prices of packaging materials.

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Our gross profit increased by HK\$12.9 million, or 5.9%, from HK\$219.2 million for the year ended 31 December 2013 to HK\$232.1 million for the year ended 31 December 2014, primarily attributable to increases in gross profits from our business segments as further explained below.

Our gross profit margin decreased slightly from 64.0% for the year ended 31 December 2013 to 63.4% for the year ended 31 December 2014, primarily attributable to the changes in gross profit margins of our business segments as further explained below.

CCMG Product Sales

Gross profit from our CCMG product sales segment increased by HK\$8.5 million, or 4.4%, from HK\$194.1 million for the year ended 31 December 2013 to HK\$202.6 million for the year ended 31 December 2014, primarily attributable to changes in our gross profits from the sales channels in this segment as further explained below.

Gross profit margin of our CCMG product sales segment decreased slightly from 63.2% for the year ended 31 December 2013 to 62.4% for the year ended 31 December 2014, primarily attributable to the changes in gross profit margins of the sales channels in this segment as further explained below:

- *Direct sales in Hong Kong.* Gross profit from our Hong Kong direct sales segment increased by HK\$5.3 million, or 6.0%, from HK\$88.2 million for the year ended 31 December 2013 to HK\$93.5 million for the year ended 31 December 2014, primarily attributable to our increased product sales to our customers in the private and public sectors.

Gross profit margin of our Hong Kong direct sales segment decreased from 66.4% for the year ended 31 December 2013 to 64.4% for the year ended 31 December 2014, primarily attributable to: (i) a decrease in selling prices of our CCMG products sold to our key customers (such as hospitals overseen by the Hong Kong Hospital Authority as well as the Tung Wah Group of Hospitals) in 2014 as we increased our price competitiveness in order to renew tender contracts with these customers in that year; and (ii) an increase in cost of raw materials mainly as a result of increased purchase prices of raw Chinese herbs and packaging materials.

- *Product sales through Chinese medicine clinics in Hong Kong.* Gross profit from our Hong Kong Chinese medicine clinic segment increased by HK\$1.6 million, or 79.8%, from HK\$2.1 million for the year ended 31 December 2013 to HK\$3.7 million for the year ended 31 December 2014, primarily attributable to our increased product sales as we established more of our Nong's® (農本方)® Chinese medicine clinics in Hong Kong in 2014.

Gross profit margin of our Hong Kong Chinese medicine clinic segment remained relatively stable from 85.4% for the year ended 31 December 2013 to 85.8% for the year ended 31 December 2014.

- *Sales to distributors in the PRC.* Gross profit from our PRC distributor sales segment remained relatively stable from HK\$47.2 million for the year ended 31 December 2013 to HK\$46.9 million for the year ended 31 December 2014.

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Gross profit margin of our PRC distributor sales segment remained relatively stable from 49.6% for the year ended 31 December 2013 to 49.9% for the year ended 31 December 2014, primarily because we consolidated our distribution network in the PRC for higher efficiency with our total number of distributors decreasing from 101 as at 31 December 2013 to 95 as at 31 December 2014 and the revenue contribution from our better-performing distributors, whose product sales had a relatively higher gross profit margin, increased during such period.

- *Direct sales in the PRC.* Gross profit from our PRC direct sales segment increased by HK\$1.7 million, or 3.1%, from HK\$56.7 million for the year ended 31 December 2013 to HK\$58.4 million for the year ended 31 December 2014, primarily attributable to an increase in sales volume of our CCMG products to approved hospitals and medical institutions for clinical use as the total number of our direct sales customers in the PRC increased from 67 as at 31 December 2013 to 81 as at 31 December 2014 and our existing customers prescribed more of our products to patients, while the relevant product prices remained relatively stable during such period.

Gross profit margin of our PRC direct sales segment decreased from 74.0% for the year ended 31 December 2013 to 72.0% for the year ended 31 December 2014, primarily attributable to an increase in cost of raw materials mainly as a result of increased purchase prices of raw Chinese herbs and packaging materials.

Chinese Healthcare Product Sales

Gross profit from our Chinese healthcare product sales segment increased by HK\$4.0 million, or 16.1%, from HK\$24.7 million for the year ended 31 December 2013 to HK\$28.7 million for the year ended 31 December 2014, primarily attributable to increases in gross profits from the sales channels in this segment as further explained below.

Gross profit margin of our Chinese healthcare product sales segment remained relatively stable from 71.6% for the year ended 31 December 2013 to 71.7% for the year ended 31 December 2014, primarily attributable to the changes in gross profit margins of the sales channels in this segment as further explained below:

- *Direct Sales in Hong Kong.* Gross profit from our Hong Kong direct sales segment increased by HK\$5.1 million, or 22.4%, from HK\$22.6 million for the year ended 31 December 2013 to HK\$27.7 million for the year ended 31 December 2014, primarily attributable to our increased sales volume of our Oncozac® (安固生)® and Nong's® Formula (農本方®沖劑) products to pharmacy chain stores due to our promotional and marketing activities, while the relevant product prices remained relatively stable during such period.

Gross profit margin of our Hong Kong direct sales segment remained relatively stable at 71.8% for the year ended 31 December 2014.

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- *Sales to Distributors in Hong Kong.* Gross profit from our Hong Kong distributor sales segment increased by HK\$0.6 million, or 154.7%, from HK\$0.4 million for the year ended 31 December 2013 to HK\$1.0 million for the year ended 31 December 2014, primarily attributable to our increased sales volume of our PuraGold® (金靈芝)® product to Hong Kong distributors as they sold a greater quantity of such product to end consumers, while the relevant product prices remained relatively stable during such period.

Gross profit margin of our Hong Kong distributor sales segment remained relatively stable at 68.6% for the years ended 31 December 2013 and 2014.

- *Direct Sales in the PRC.* Gross profit from our PRC direct sales segment generally decreased by HK\$1.6 million, or 96.6%, from HK\$1.7 million for the year ended 31 December 2013 to HK\$0.1 million for the year ended 31 December 2014, mainly because we repositioned our products and distribution channels for strategic growth in the future.

Gross profit margin of our PRC direct sales segment remained relatively stable during the Track Record Period.

Other Income and Gains

Our other income and gains decreased by HK\$2.2 million, or 27.2%, from HK\$8.0 million for the year ended 31 December 2013 to HK\$5.8 million for the year ended 31 December 2014, primarily attributable to the gain on disposal of subsidiaries of HK\$1.2 million in 2013 as we disposed of a company which was dormant as part of our group restructuring for the propose of streamlining our business structure.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by HK\$2.7 million, or 2.7%, from HK\$101.9 million for the year ended 31 December 2013 to HK\$99.2 million for the year ended 31 December 2014, primarily attributable to: (i) a decrease of HK\$2.3 million in advertising and promotion expenses as we incurred certain marketing expenses to promote our Chinese healthcare products under Nong's® Formula (農本方®沖劑) brand in Hong Kong in 2013; and (ii) a decrease of HK\$1.2 million in travelling and business development expenses mainly as result of our consolidated distribution network in the PRC in 2014.

Administrative expenses

Our administrative expenses increased by HK\$1.3 million, or 1.7%, from HK\$79.7 million for the year ended 31 December 2013 to HK\$81.0 million for the year ended 31 December 2014, primarily attributable to: (i) an increase of HK\$4.0 million in the listing expenses incurred for the Global Offering; and (ii) an increase of HK\$1.7 million in staff costs as we increased the employee headcount for our expanded business and the average salary level of our administrative employees also increased in 2014, the effect of which were partially offset by: (i) a decrease in office expense of HK\$2.2 million as we streamlined our business operations; and (ii) provision for doubtful debt of HK\$1.3 million in 2013 but no such provision for doubtful debts being made in 2014.

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Other Expenses

Our other expenses decreased by HK\$0.4 million, or 14.0%, from HK\$2.7 million for the year ended 31 December 2013 to HK\$2.3 million for the year ended 31 December 2014, primarily attributable to a decrease in currency exchange net difference mainly as a result of the exchange rate movement between Renminbi and Hong Kong dollars.

Finance Costs

Our finance costs remained relatively stable around HK\$13.1 million for the years ended 31 December 2013 and 2014 as we maintained the balance of our bank loans relatively stable during these two years.

Profit before Tax

As a result of the foregoing, our profit before tax increased by HK\$12.6 million, or 42.6%, from HK\$29.7 million for the year ended 31 December 2013 to HK\$42.3 million for the year ended 31 December 2014. The following sets forth a breakdown of the profit before tax for our subsidiaries by jurisdiction for the period from 2013 to 2014:

- *Hong Kong.* We had profit before tax of HK\$14.5 million from our business in Hong Kong for the year ended 31 December 2014, while we had loss before tax of HK\$115,000 from such business for the year ended 31 December 2013. The difference of HK\$14.6 million was primarily attributable to: (i) increases in gross profits from our CCMG product sales to direct sales customers and through distributors as well as an increase in gross profit from our Chinese healthcare product sales to direct sales customers in Hong Kong in 2014; (ii) a decrease in advertising and promotion expenses as we incurred certain marketing expenses to promote our Chinese healthcare products under Nong's® Formula (農本方®沖劑) brand in Hong Kong in 2013; and (iii) a decrease in office expense as we streamlined our business operations in Hong Kong in 2014.

In 2013, we increased selling and distribution expenses to advertise our Chinese healthcare products under Nong's® (農本方)® brand in Hong Kong as well as increased staff costs mainly as a result of our increased employee headcount for our expanded business operations, and the average salary level in Hong Kong also increased in that year. The effects of our increased expenses in 2013 were partially offset by our gross profits from our CCMG product sales and Chinese healthcare product sales in Hong Kong for the same year, which resulted in a loss making position for our Hong Kong operations for that year.

- *PRC.* Profit before tax from our business in the PRC decreased by HK\$4.8 million, or 13.7%, from HK\$35.4 million for the year ended 31 December 2013 to HK\$30.6 million for the year ended 31 December 2014, primarily attributable to: (i) an increase in staff costs as we increased the employee headcount for our expanded PRC business and the average salary level of our PRC employees also increased in 2014; and (ii) a decrease in gross profit from our Chinese healthcare product sales to direct sales customers in the PRC in 2014.

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- *Others.* Loss before tax from our business in other overseas countries (such as BVI, Singapore, United States, Canada and Macau) decreased by HK\$2.9 million, or 51.4%, from HK\$5.6 million for the year ended 31 December 2013 to HK\$2.7 million for the year ended 31 December 2014, primarily attributable to decreases in travelling expenses and office expenses in these overseas countries as we devoted more resources to expand our business in Hong Kong and the PRC.

Income Tax Expenses

Our income tax expenses increased by HK\$4.4 million, or 130.2%, from HK\$3.4 million for the year ended 31 December 2013 to HK\$7.8 million for the year ended 31 December 2014. The increase was primarily attributable to an increase in profit before tax in 2013. Our effective tax rate increased from 11.4% for the year ended 31 December 2013 to 18.5% for the year ended 31 December 2014, primarily because we enjoyed the preferential EIT rate of 9.0% for the assessable profits from our PRC subsidiary, PuraPharm Nanning, in 2013 and after the expiry of relevant government policy in 2014, we were subject to the preferential EIT rate of 15.0% for that year.

Profit for the Year

As a result of the foregoing, our net profit increased by HK\$8.2 million, or 31.3%, from HK\$26.3 million for the year ended 31 December 2013 to HK\$34.5 million for the year ended 31 December 2014.

Year Ended 31 December 2013 Compared to Year Ended 31 December 2012

Revenue

Our total revenue increased by HK\$54.5 million, or 18.9%, from HK\$287.8 million for the year ended 31 December 2012 to HK\$342.3 million for the year ended 31 December 2013, primarily attributable to increases in revenues from our business segments as further explained below.

CCMG Product Sales

Revenue from our CCMG product sales segment increased by HK\$63.3 million, or 26.0%, from HK\$243.8 million for the year ended 31 December 2012 to HK\$307.1 million for the year ended 31 December 2013, primarily attributable to increases in revenues from the sales channels in this segment as further explained below:

- *Direct sales in Hong Kong.* Revenue from our Hong Kong direct sales segment increased by HK\$14.8 million, or 12.5%, from HK\$118.1 million for the year ended 31 December 2012 to HK\$132.9 million for the year ended 31 December 2013. The increase was primarily attributable to: (i) an increase in sales volume of our CCMG products to Chinese medicine clinics and practitioners in the private sector in 2013, primarily because an increasing number of such customers recognised the benefits of our products as a result of our brand awareness and made purchases accordingly; and (ii) a continuous increase in sales volume of our CCMG products to public hospitals, Chinese medicine clinics and

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non-profit organisations who prescribe more of our products to patients in 2014 due to rising market demand, while the relevant product prices remained relatively stable during such period.

- *Product sales through Chinese medicine clinics in Hong Kong.* Revenue from the sales of our CCMG products through Chinese medicine clinics in Hong Kong remained relatively stable from HK\$2.2 million for the year ended 31 December 2012 to HK\$2.4 million for the year ended 31 December 2013, primarily because we only had two Nong's® (農本方)® Chinese medicine clinics in operation in Hong Kong during this period and the amount of our CCMG products prescribed to patients did not change materially during this period.
- *Sales to distributors in the PRC.* Revenue from our PRC distributor sales segment increased by HK\$7.8 million, or 9%, from HK\$87.3 million for the year ended 31 December 2012 to HK\$95.1 million for the year ended 31 December 2013. The increase was attributable to an increase in sales volume of our CCMG products to distributors as certain better-performing distributors sold more of our CCMG products to approved hospitals and medical institutions for clinical use in the PRC in 2013.
- *Direct sales in the PRC.* Revenue from our PRC direct sales segment increased by HK\$40.4 million, or 111.6%, from HK\$36.2 million for the year ended 31 December 2012 to HK\$76.6 million for the year ended 31 December 2013. The increase was primarily attributable to an increase in sales volume of our CCMG products to approved hospitals and medical institutions for clinical use as the total number of our direct sales customers in the PRC increased from 46 as at 31 December 2012 to 67 as at 31 December 2013 and our existing customers prescribed more of our products to patients in 2013, while the relevant product prices remained relatively stable during such period.

Chinese Healthcare Product Sales

Revenue from the sales of our Chinese healthcare products decreased by HK\$8.8 million, or 20.3%, from HK\$43.4 million for the year ended 31 December 2012 to HK\$34.6 million for the year ended 31 December 2013, primarily attributable to the changes in revenue from the sales channels in this segment as further explained below:

- *Direct Sales in Hong Kong.* Revenue from the direct sales of our Chinese healthcare products in Hong Kong decreased by HK\$2.3 million, or 6.7%, from HK\$33.8 million for the year ended 31 December 2012 to HK\$31.5 million for the year ended 31 December 2013, primarily attributable to our decreased sales of PuraGold® (金靈芝)® product to certain pharmacy chain stores (such as Watsons) in 2013 as we focused more marketing resources on promoting our Nong's® Formula (農本方®沖劑) series of Chinese health products in 2013 in order to diversify our product portfolio.

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- *Sales to Distributors in Hong Kong.* Revenue from the sales of our Chinese healthcare products to distributors in Hong Kong decreased by HK\$6.2 million, or 91.5%, from HK\$6.8 million for the year ended 31 December 2012 to HK\$0.6 million for the year ended 31 December 2013, primarily attributable to our decreased sales volume of PuraGold® (金靈芝)® products to Hong Kong distributors in 2013 as we devoted our marketing resources to promote the direct sales of our Nong's® Formula (農本方®沖劑) products in Hong Kong in order to diversify our product portfolio.
- *Direct Sales in the PRC.* Revenue from the direct sales of our Chinese healthcare products in the PRC decreased by HK\$0.3 million, or 10.9%, from HK\$2.8 million for the year ended 31 December 2012 to HK\$2.5 million for the year ended 31 December 2013, primarily because we repositioned our products and distribution channels for strategic growth in the future.

Service Income through Chinese Medicine Clinics in Hong Kong

Revenue from service income through our Nong's® (農本方)® Chinese medicine clinics in Hong Kong increased slightly by HK\$14,000, or 2.1%, from HK\$652,000 for the year ended 31 December 2012 to HK\$666,000 for the year ended 31 December 2013, as we had only two Nong's® (農本方)® Chinese medicine clinics in operation in Hong Kong during this period and diagnostic services, which Chinese medicine practitioners provided to patients, did not change materially during this period.

Cost of Sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by HK\$19.9 million, or 19.3%, from HK\$103.2 million for the year ended 31 December 2012 to HK\$123.1 million for the year ended 31 December 2013. The increase was primarily attributable to an increase of HK\$11.8 million in cost of raw materials mainly as a result of increased purchase prices of raw Chinese herbs in 2013.

Our gross profit increased by HK\$34.6 million, or 18.8%, from HK\$184.6 million for the year ended 31 December 2012 to HK\$219.2 million for the year ended 31 December 2013, primarily attributable to increases in gross profits from our business segments as further explained below.

Our gross profit margin remained relatively stable from 64.1% for the year ended 31 December 2012 to 64.0% for the year ended 31 December 2013, primarily attributable to the changes in gross profit margins of our business segments as further explained below.

CCMG Product Sales

Gross profit from our CCMG product sales segment increased by HK\$43.2 million, or 28.6%, from HK\$150.9 million for the year ended 31 December 2012 to HK\$194.1 million for the year ended 31 December 2013, primarily attributable to increases in gross profits from the sales channels in this segment as further explained below.

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Gross profit margin of our CCMG product sales segment increased from 61.9% for the year ended 31 December 2012 to 63.2% for the year ended 31 December 2013, primarily attributable to the changes in gross profit margins of the sales channels in this segment as further explained below:

- *Direct sales in Hong Kong.* Gross profit from our Hong Kong direct sales segment increased by HK\$8.6 million, or 10.8%, from HK\$79.6 million for the year ended 31 December 2012 to HK\$88.2 million for the year ended 31 December 2013, primarily attributable to our increased sales volume of CCMG products to our customers in the private and public sectors in Hong Kong, while the relevant product prices remained relatively stable during such period.

Gross profit margin of our Hong Kong direct sales segment decreased from 67.4% for the year ended 31 December 2012 to 66.4% for the year ended 31 December 2013, primarily attributable to an increase in cost of raw materials mainly as a result of increased purchase prices of raw Chinese herbs in 2013.

- *Product sales through Chinese medicine clinics in Hong Kong.* Gross profit from our Hong Kong Chinese medicine clinic segment increased by HK\$0.2 million, or 12.2%, from HK\$1.9 million for the year ended 31 December 2012 to HK\$2.1 million for the year ended 31 December 2013, primarily attributable to an increase in our sales volume of our CCMG products through our two Nong's® (農本方)® Chinese medicine clinics in Hong Kong during the period.

Gross profit margin of our Hong Kong Chinese medicine clinic segment remained relatively stable from 85.3% for the year ended 31 December 2012 to 85.4% for the year ended 31 December 2013.

- *Sales to distributors in the PRC.* Gross profit from our PRC distributor sales segment increased by HK\$4.6 million, or 10.6%, from HK\$42.6 million for the year ended 31 December 2012 to HK\$47.2 million for the year ended 31 December 2013, primarily attributable to our increased product sales to distributors as we consolidated our distribution network and better-performing distributors sold more of our products to approved hospitals and medical institutions for clinical use in the PRC.

Gross profit margin of our PRC distributor sales segment increased from 48.9% for the year ended 31 December 2012 to 49.6% for the year ended 31 December 2013, primarily because we consolidated our distribution network in the PRC for higher efficiency and terminated non-performing distributors, while the revenue contribution of better-performing distributors, which had a relatively higher gross profit margin, increased.

- *Direct sales in the PRC.* Gross profit from our PRC direct sales segment increased by HK\$29.9 million, or 111.3%, from HK\$26.8 million for the year ended 31 December 2012 to HK\$56.7 million for the year ended 31 December 2013, primarily attributable to our increased sales volume of CCMG products to our customers as the total number of our direct sales customers in the PRC increased from 46 as at 31 December 2012 to 67 as at 31

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December 2013 and our existing customers prescribed more of our products to patients due to our promotional and marketing activities, while the relevant product prices remained relatively stable during such period.

Gross profit margin of our PRC direct sales segment remained relatively stable from 74.1% for the year ended 31 December 2012 to 74.0% for the year ended 31 December 2013.

Chinese Healthcare Product Sales

Gross profit from our Chinese healthcare product sales segment decreased by HK\$8.6 million, or 25.8%, from HK\$33.3 million for the year ended 31 December 2012 to HK\$24.7 million for the year ended 31 December 2013, primarily attributable to the changes in gross profits from the sales channels in this segment as further explained below.

Gross profit margin of our Chinese healthcare product sales segment decreased from 76.9% for the year ended 31 December 2012 to 71.6% for the year ended 31 December 2013, primarily attributable to the changes in gross profit margins of the sales channels in this segment as further explained below:

- *Direct Sales in Hong Kong.* Gross profit from our Hong Kong direct sales segment decreased by HK\$4.1 million, or 15.4%, from HK\$26.7 million for the year ended 31 December 2012 to HK\$22.6 million for the year ended 31 December 2013, primarily attributable to our decreased sales of PuraGold® (金靈芝)® products to certain pharmacy chain stores (such as Watsons) in 2013 as we focused our marketing resources on promoting our Nong's® Formula (農本方®沖劑) series of Chinese health products in order to diversify our product portfolio in 2013.

Gross profit margin of our Hong Kong direct sales segment decreased from 79.1% for the year ended 31 December 2012 to 71.7% for the year ended 31 December 2013, primarily attributable to our decreased sales of PuraGold® (金靈芝)® products, which have a relatively higher gross profit margin, to certain pharmacy chain stores in 2013.

- *Sales to Distributors in Hong Kong.* Gross profit from our Hong Kong direct sales segment decreased by HK\$4.3 million, or 91.5%, from HK\$4.7 million for the year ended 31 December 2012 to HK\$397,000 for the year ended 31 December 2013, primarily attributable to our decreased sales volume of PuraGold® (金靈芝)® products, which has a relatively high gross profit margin, to Hong Kong distributors in 2013 as we focused more marketing resources primarily on the direct sales of Chinese healthcare products in Hong Kong.

Gross profit margin of our Hong Kong distributor sales segment remained relatively stable at 68.6% for the years ended 31 December 2013 and 2014.

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- *Direct Sales in the PRC.* Gross profit from our PRC direct sales segment decreased by HK\$0.3 million, or 10.6%, from HK\$2.0 million for the year ended 31 December 2012 to HK\$1.7 million for the year ended 31 December 2013, mainly because we repositioned our products and distribution channels for strategic growth in the future.

Gross profit margin of our PRC direct sales segment remained relatively stable during the Track Record Period.

Other Income and Gains

Our other income and gains decreased by HK\$6.0 million, or 43.2%, from HK\$14.0 million for the year ended 31 December 2012 to HK\$8.0 million for the year ended 31 December 2013. The decrease was primarily attributable to a decrease of HK\$6.2 million in gain on disposal of subsidiaries as we disposed of seven companies in 2012 which were either dormant or were principally engaged in businesses not forming part of our Group's core business (such as, research and development on the molecular structure of Chinese herbs specifically for application in western medicine and trading of pet's healthcare products).

Selling and Distribution Expenses

Our selling and distribution expenses increased by HK\$23.7 million, or 30.4%, from HK\$78.2 million for the year ended 31 December 2012 to HK\$101.9 million for the year ended 31 December 2013. The increase was primarily attributable to: (i) an increase of HK\$19.4 million in advertising and promotion expenses as we promoted our Chinese healthcare products under our Nong's® (農本方)® brand in Hong Kong and devoted more marketing resources to expand our CCMG product direct sales channel in the PRC in 2013; and (ii) an increase of in HK\$2.5 million in staff costs mainly as a result of the expansion of our sales and distribution network and our efforts to strengthen our marketing and sales team in 2013.

Administrative Expenses

Our administrative expenses increased by HK\$25.1 million, or 45.9%, from HK\$54.6 million for the year ended 31 December 2012 to HK\$79.7 million for the year ended 31 December 2013. The increase was primarily attributable to: (i) an increase of HK\$8.0 million in staff costs as we increased the employee headcount for our expanded business in 2013; (ii) an increase of HK\$7.8 million in research and development costs in relation to our research and product development activities in 2013; and (iii) the listing expenses of HK\$1.8 million incurred for the Global Offering.

Other Expenses

Our other expenses decreased by HK\$2.1 million, or 44.0%, from HK\$4.8 million for the year ended 31 December 2012 to HK\$2.7 million for the year ended 31 December 2013. The decrease was primarily attributable to a decrease in our voluntary charity donations mainly in Hong Kong.

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Finance Costs

Our finance costs increased by HK\$2.1 million, or 20.0%, from HK\$11.0 million for the year ended 31 December 2012 to HK\$13.1 million for the year ended 31 December 2013. The increase was primarily attributable to an increase of HK\$2.1 million in interest on bank loans and overdrafts as we increased bank loans, especially the PRC bank loans, for our expanded business and the PRC bank loans required relatively higher interest rates compared to those of Hong Kong bank loans.

Profit before Tax

As a result of the foregoing, our profit before tax decreased by HK\$20.4 million, or 40.7%, from HK\$50.1 million for the year ended 31 December 2012 to HK\$29.7 million for the year ended 31 December 2013. The following sets forth a breakdown of the profit before tax for our subsidiaries by jurisdiction for the period from 2012 to 2013:

- *Hong Kong.* We had loss before tax of HK\$115,000 from our business in Hong Kong for the year ended 31 December 2013, while our profit before tax from such business for the year ended 31 December 2012 was HK\$28.9 million. The difference of HK\$29.0 million was primarily attributable to: (i) an increase in advertising and promotion expenses as we promoted our Chinese healthcare products under our Nong's® (農本方)® brand in Hong Kong in 2013; (ii) an increase in staff costs as we increased the employee headcount for our expanded business in Hong Kong in 2013; and (iii) a decrease in gain on disposal of subsidiaries for the period from 2012 to 2013 as we disposed of seven companies in 2012 and the remaining company in 2013, and all of these disposed companies were either dormant or were principally engaged in businesses not forming part of our Group's core business in Hong Kong.
- *PRC.* Profit before tax from our business in the PRC increased by HK\$10.7 million, or 43.4%, from HK\$24.7 million for the year ended 31 December 2012 to HK\$35.4 million for the year ended 31 December 2013, primarily attributable to increases in gross profits from our CCMG product sales to direct sales customers and through distributors in the PRC in 2013.
- *Others.* Loss before tax from our business in other overseas countries (such as BVI, Singapore, United States, Canada and Macau) increased by HK\$2.0 million, or 56.6%, from HK\$3.6 million for the year ended 31 December 2012 to HK\$5.6 million for the year ended 31 December 2013, primarily attributable to increases in travelling expenses and office expenses as we explored market opportunities in these overseas countries.

Income Tax Expenses

Our income tax expenses decreased by HK\$2.5 million, or 42.5%, from HK\$5.9 million for the year ended 31 December 2012 to HK\$3.4 million for the year ended 31 December 2013. The decrease was primarily attributable to a decrease in profit before tax in 2013. Our effective tax rate remained

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relative stable from 11.9% for the year ended 31 December 2012 to 11.4% for the year ended 31 December 2013, primarily because our PRC operating subsidiary was entitled to the preferential EIT rate of 9.0% on the estimated assessable profits for these two years in accordance with relevant PRC tax regulations.

Profit for the Year

As a result of the foregoing, our net profit decreased by HK\$17.8 million, or 40.4%, from HK\$44.1 million for the year ended 31 December 2012 to HK\$26.3 million for the year ended 31 December 2013.

DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Net Current Liabilities

Our current assets consist primarily of inventories, trade and bills receivables, prepayments, deposits and other receivables, due from related parties, pledged bank deposits, and cash and cash equivalents. Our current liabilities consist primarily of trade payables, other payables and accruals, interest-bearing bank and other borrowings, loans from a director, due to related parties, tax payable, and government grants.

The table below sets forth our current assets, current liabilities and net current liabilities as at the date indicated. This information should be read together with our consolidated financial information included in Appendix I — “Accountants’ Report” to this prospectus.

	As at 31 December			As at 30 April
	2012	2013	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CURRENT ASSETS				
Inventories	76,943	65,214	89,893	102,791
Trade and bills receivables	67,326	98,744	103,098	91,190
Prepayments, deposits and other receivables	16,265	15,047	33,184	38,575
Due from a director	15,931	12,256	11,822	11,568
Due from the ultimate holding company	56	—	—	—
Due from related companies	22,706	240	240	337
Pledged bank deposits	—	15,861	20,633	17,249
Cash and cash equivalents	<u>36,839</u>	<u>32,852</u>	<u>46,736</u>	<u>24,567</u>
Total current assets	<u><u>236,066</u></u>	<u><u>240,214</u></u>	<u><u>305,606</u></u>	<u><u>286,277</u></u>

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	As at 31 December			As at 30 April
	2012	2013	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CURRENT LIABILITIES				
Trade payables	48,783	29,873	44,546	54,399
Other payables and accruals	39,299	38,682	37,688	41,382
Interest-bearing bank and other borrowings	179,839	183,343	182,692	177,164
Loans from a director	3,134	—	—	—
Due to the immediate holding company	11,929	12,436	12,365	12,305
Due to related parties	68	416	—	—
Tax payable	2,855	2,041	3,780	2,311
Government grants	899	1,649	1,504	1,310
Total current liabilities	<u>286,806</u>	<u>268,440</u>	<u>282,575</u>	<u>288,871</u>
NET CURRENT ASSETS/(LIABILITIES)	<u>(50,740)</u>	<u>(28,226)</u>	<u>23,031</u>	<u>(2,594)</u>

We had net current liabilities of approximately HK\$2.6 million as at 30 April 2015, whereas we had net current assets of approximately HK\$23.0 million as at 31 December 2014. Such change was primarily attributable to our remaining prepayment of approximately HK\$18.7 million, which was made in the four months ended 30 April 2015, for the acquisition of a land parcel to expand our manufacturing facilities in Nanning. As at 30 April 2015, the total prepayment for such land acquisition amounted to HK\$28.4 million. In connection with the prepayment, our cash and cash equivalents decreased and as the acquisition for the land was classified as non-current asset, we incurred net current liabilities as at 30 April 2015. We had net current assets of approximately HK\$23.0 million as at 31 December 2014, whereas we had net current liabilities of approximately HK\$28.2 million as at 31 December 2013. Such change was primarily attributable to: (i) an increase in inventories of HK\$24.7 million as at 31 December 2014, compared to that as at 31 December 2013, primarily because we increased our purchases of raw materials and the inventories of raw materials, work in progress and finished goods increased mainly as a result of our expanded production in 2014; (ii) an increase in prepayment, deposits and other receivables of HK\$18.2 million as at 31 December 2014, compared to that as at 31 December 2013, mainly attributable to our increased prepayments for raw material purchases as we started to build up our strategic inventory of raw Chinese herbs in 2014, as well as prepayment for listing expenses; and (iii) an increase in cash and cash equivalents of HK\$13.8 million, the effects of which were partially offset by an increase in trade payables of HK\$14.6 million, primarily because we increased our purchases of raw Chinese herbs for expanded production in 2014.

Our net current liabilities decreased by HK\$22.5 million, or 44.4%, from approximately HK\$50.7 million as at 31 December 2012 to approximately HK\$28.2 million as at 31 December 2013. The decrease was primarily attributable to: (i) an increase in trade receivables of HK\$31.4 million as at 31 December 2013, compared to that as at 31 December 2012, primarily because we sold more CCMG products on credit to direct sales customers comprising approved hospitals and medical

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institutions in the PRC in 2013; (ii) a decrease in trade payables of HK\$18.9 million as at 31 December 2013, compared to that as at 31 December 2012, primarily because we increased our purchases of raw Chinese herbs for expanded production at the end of 2012 in order to reduce any impact of increases in raw material prices and control our procurement costs; and (iii) a pledge of bank deposits of HK\$15.9 million as at 31 December 2013 which were required to secure certain bank loans, the effects of which were partially offset by: (i) a decrease in amounts due from related companies of HK\$22.5 million as at 31 December 2013, compared to that as at 31 December 2012, mainly attributable to payments to settle outstanding account balances with related companies; and (ii) a decrease in inventories of HK\$11.7 million as at 31 December 2013, compared to that as at 31 December 2012, mainly attributable to our comparatively larger volume of purchases of raw Chinese herbs at the end of 2012.

Inventories

Our inventories include raw materials, work in progress and finished goods. The following table sets forth the components of our inventories as at the dates indicated:

	As at 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	20,718	15,483	22,304
Work in progress.....	17,127	18,165	21,355
Finished goods.....	40,958	35,982	49,982
	78,803	69,630	93,641
Less Provision	(1,860)	(4,416)	(3,748)
Total	76,943	65,214	89,893

Raw materials consist primarily of raw Chinese herbs, consumables and packaging materials. Work in progress consists primarily of semi-finished Chinese herbal extracts during production process for our CCMG products and Chinese healthcare products. Finished goods represent primarily our finished CCMG products and Chinese healthcare products.

Our inventory of raw materials is primarily used for the manufacture of our products before being further processed. Our inventory of raw materials decreased by HK\$5.2 million, or 25.3%, from HK\$20.7 million as at 31 December 2012 to HK\$15.5 million as at 31 December 2013, primarily because we increased our purchases of raw Chinese herbs for expanded production at the end of 2012 in order to reduce any impact of increases in raw material prices and control our procurement costs. Our inventory of raw materials increased by HK\$6.8 million, or 44.1%, from HK\$15.5 million as at 31 December 2013 to HK\$22.3 million as at 31 December 2014, primarily because we increased our purchases of raw Chinese herbs and manufactured more products towards the end of 2014 in preparation for expected rising customer demand in the first quarter of 2015.

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Our inventory of work in progress is primarily used for the manufacture of our final CCMG products and Chinese healthcare products. Our inventory of work in progress remained relatively stable from HK\$17.1 million as at 31 December 2012 to HK\$18.2 million as at 31 December 2013, in line with the relevant production plans during these two years. Our inventory of work in progress increased by HK\$3.2 million, or 17.6%, from HK\$18.2 million as at 31 December 2013 to HK\$21.4 million as at 31 December 2014, primarily because we had more products in production in anticipation of rising customer demand in the first quarter of 2015.

Our inventory of finished goods represents primarily finished CCMG products and Chinese healthcare products. Our inventory of finished goods decreased by HK\$5.0 million, or 12.2%, from HK\$41.0 million as at 31 December 2012 to HK\$36.0 million as at 31 December 2013, primarily because we sold a significant amount of our CCMG products and Chinese healthcare products in the fourth quarter of 2013. Our inventory of finished goods increased by HK\$14.0 million, or 38.9%, from HK\$36.0 million as at 31 December 2013 to HK\$50.0 million as at 31 December 2014, primarily because we increased our purchases of raw Chinese herbs and manufactured more products towards the end of 2014 in preparation for expected rising customer demand in the first quarter of 2015.

We maintain inventory control with respect to the ordering, storing, retrieving and purchase of raw materials and the storing and retrieving of semi-finished and finished products. We actively monitor and review our inventory levels on a regular basis and seek to maintain a reasonable level of inventories throughout our production process. In order to avoid risk and undue expenses arising from over-stocking, we normally places purchase orders for raw materials and trading products and maintain a proper level of inventories according to our sales forecasts which are based on the historical sales of our existing products as well as our experience and expected market demand for our products. We estimate production volume for our finished products and maintain a proper level of inventories according to our sales forecasts. We closely monitor and assess the sales performance of relevant products so that we can adjust our product mix and relevant production plans.

We track inventory levels and ensure adequate levels of raw materials and semi-finished and finished products through our information system. According to our inventory policy, for most of our finished products, we typically maintain an inventory level sufficient to meet expected orders from our customers for two to three months. In order to manage market price fluctuations, we typically maintain an inventory level of domestic raw materials which is sufficient to meet our production needs for one to two months. We regularly monitor the inventory levels of semi-finished and finished products and raw materials as well as review the historical performance of relevant products taking into account our projections and market demographics. We also perform semi-annual stock counts and monitor the life of our products by conducting periodic review to assess our inventory control measures and costs. If any inventory discrepancy is discovered during each inventory check, we require our responsible staff to find specific reasons and take rectifying actions accordingly.

The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overhead, based on normal operating capacity. Inventories are stated at cost, which is calculated using the weighted average method, or net realisable value, whichever is lower. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs for sale. We review the carrying value of our inventories from time to time. Based on conditions of goods, including aging and expiry, and

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estimated net realisable value of our inventories, we make provision for impairment of inventories when the inventories become obsolete or damaged and the carrying value declines below the net realisable value. We generally recognise inventory provision as cost of sales in the consolidated statements of profit or loss of our Group. For the years ended 31 December 2012, 2013 and 2014, our inventory provision was HK\$1.9 million, HK\$4.4 million and HK\$3.7 million, respectively. Our inventory provision for the year ended 31 December 2013 was relatively high, primarily attributable to certain inventories of damaged raw materials and expired CCMG products.

The inventory provision process involves the collaboration of multiple internal departments including the sales, finance, procurement, warehouse, quality control and production. The effective life of our CCMG products and Chinese healthcare products is 36 months, subject to the expiry and effectiveness periods of relevant products. Our warehouse managers and financial personnel monthly prepare the information on inventories as well as the aging and expected usability. The general managers responsible for production and inventory management and relevant department heads evaluate such information and propose the inventory provision. Our management then reviews and approves the proposed inventory provision before it is implemented.

If we fail to manage our inventories effectively, we may be subject to certain risks. Please refer to the paragraph headed “Risk Factors — Risks relating to Conducting Businesses in Hong Kong and the PRC — We may not be able to maintain proper inventory levels for our operations” in this prospectus for further discussion.

We actively monitor and review our inventory levels on a regular basis and seek to maintain a reasonable level of inventories throughout our production process. We closely monitor and assess the sales performance of our products so that we can adjust our product mix and relevant production plans. We will increase the purchases of raw materials when we believe it is prudent to do so based on the raw material prices and our estimated production volume and sales.

The following table sets forth our average inventory turnover days for the years indicated:

	Year ended 31 December		
	2012	2013	2014
Average inventory turnover days	276	211	211

Note:

- (1) The average inventory turnover days are calculated by dividing the average of the opening and closing balances of inventories for the relevant period by the corresponding cost of sales for the period and then multiplying by 365 days for a year.

Our average inventory turnover days were relatively high during the Track Record Period primarily attributable to our extensive product portfolio consisting of over 600 CCMG products. During production process, certain down time is required for cleaning of production equipment when we make production shifts between different products. For the periods ended 31 December 2012, 2013, 2014, the average down time for the cleaning of production equipment and routine maintenance per

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production equipment amounted to 46 days, 47 days and 57 days, respectively. Based on our experience, our Directors believe that we are able to take advantage of economies of scale production by increasing the production batch size of each product to fulfil expected customer needs which are estimated based on our sales forecast for the next three to six months. As we use an extensive range of raw Chinese herbs in our production, and the supply of certain Chinese raw herbs is subject to the seasonal factor, we have to purchase the raw Chinese herbs at optimal times to prevent inventory shortage and maintain a sufficient inventory level of raw Chinese herbs for our production needs.

Our average inventory turnover days generally decreased during the Track Record Period, primarily because we enhanced our overall management of inventories and maintained a reasonable inventory level according to our sales forecasts for the forthcoming season.

As at 30 April 2015, being the latest date for liquidity disclosure, approximately HK\$57.1 million, or 63.5%, of our inventories as at 31 December 2014, were subsequently sold.

Trade and Bills Receivables

The table below sets forth a breakdown of our trade and bills receivable balances as at the dates indicated:

	As at 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	68,904	99,260	98,766
Bills receivable	—	—	4,670
Impairment	(1,578)	(516)	(338)
Total	67,326	98,744	103,098

Our trade and bills receivable balance mainly represents the outstanding amounts receivable by us from our direct sales customers comprising state-owned hospitals and medical institutions in the PRC. Our trade and bills receivables are initially recognised at fair value and subsequently measured at amortised costs less provision for impairment of trade and bills receivables. Our management has maintained a strict control over outstanding balances of trade, notes and other receivables and reviewed overdue amounts regularly.

Our trade and bills receivables as at 31 December 2012, 2013 and 2014 were approximately 28.5%, 41.1% and 33.7% of our total current assets as at the same dates, respectively. Our trade receivables increased by HK\$31.4 million, or 46.7%, from HK\$67.3 million as at 31 December 2012 to HK\$98.7million as at 31 December 2013. The increase in our trade receivables primarily reflected the increased direct sales of our CCMG products to customers comprising state-owned hospitals and medical institutions in the PRC in 2013. Our trade and bills receivables increased by HK\$4.4 million, or 4.4%, from HK\$98.7 million as at 31 December 2013 to HK\$103.1 million as at 31 December 2014,

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primarily attributable to our bills receivable in the amount of HK\$4.7 million from our direct sales customers in 2014, while our trade receivables remained relatively stable for these two years as we enhanced our overall management.

Our policy for impairment on trade and bills receivables is based on an evaluation of collectability and aging analysis of the receivables that requires the use of judgement and estimates of our management. Our management closely reviews the trade and bills receivables balances and any overdue balances on an ongoing basis and assesses the collectability of overdue balances. After fully considering the nature of trade and bills receivables and their collectability on a case-by-case basis, we have made provision for the impairment of certain long overdue trade and bills receivables in order to ensure the quality of our assets. Provision would apply to the receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. We recognise provision for impairment of trade and bills receivables as administrative expenses in the consolidated statements of profit or loss of our Group. For the years ended 31 December 2012, 2013 and 2014, we made provision for doubtful debts of approximately HK\$1.2 million, HK\$0.5 million and nil, respectively. We did not hold any collateral or other security over such impaired amount. We believe that we have made sufficient provision for the unsettled trade and bills receivables based on our assessment and impairment provision policy, and no additional provision is necessary for the Track Record Period. Please refer to the subsection headed “— Critical Accounting Policies — Impairment of Trade and Other Receivables” in this section for details of our impairment provision policy.

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired.....	50,091	63,501	67,128
Less than 1 month past due.....	6,439	15,516	11,342
1 to 2 months past due.....	3,492	2,815	3,088
2 to 3 months past due.....	912	1,884	2,220
Over 3 months past due	6,392	15,028	19,320
	67,326	98,744	103,098

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers who have a good track record with the Group. Based on past experience, our Directors are of the opinion that no provision for impairment 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. We do not hold any collateral or other credit enhancements over these balances.

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The balances of our trade and bills receivables over three months past due as at 31 December 2012, 2013 and 2014 were HK\$6.4 million, HK\$15.0 million and HK\$19.3 million, respectively, and they mainly comprise of direct sales made to state-owned hospitals and medical institutions in the PRC which generally have longer payment records due to longer internal approval process. We are of the opinion that no provisions for impairment is necessary in respect of these past due amounts as the customers have good credit history.

We generally grant a credit period of one to six months to our customers after delivery of our products, extending up to a longer period for certain customers, such as state-owned hospitals and medical institutions to which we have directly sold our products. Our trading terms with our customers vary depending on a number of factors, including their historical payments, business performance, market positions, significant financial difficulties of debtors, possibility of default or delinquent payments, as well as probability of filing for bankruptcy by debtors or being subject to a financial reorganisation. We have taken into account the impact on our working capital position when granting the credit limits to our customers. During the Track Record Period, we did not experience any difficulties in working capital requirement and maintained sufficient cash flow to support our operation through product sales and capital contribution by our shareholders.

The following table sets forth our trade and bills receivable turnover days for the years indicated:

	<u>Year ended 31 December</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
Average trade and bills receivable turnover days	76	89	101

Note:

- (1) The average trade and bills receivable turnover days are calculated by dividing the average of the opening and closing balances of trade and bills receivables for the relevant period by the corresponding revenue for the period and then multiplying by 365 days for a year.

Our average trade and bills receivable turnover days generally increased during the Track Record Period, primarily because we increased the sales volume of our CCMG products to our direct sales customers in the PRC during such period and we generally grant a longer credit period for such customers comprising state-owned hospitals and medical institutions.

As at 30 April 2015, being the latest date for liquidity disclosure, approximately HK\$63.9 million, or 62.0%, of our trade and bills receivables as at 31 December 2014 were subsequently settled.

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Prepayments, Deposits and Other Receivables

The following table sets forth the components of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments.....	12,616	11,454	36,275
Deposits and other receivables	10,041	7,712	8,597
	22,657	19,166	44,872
Impairment	(255)	(260)	(257)
	22,402	18,906	44,615
Portion classified as non-current	(6,137)	(3,859)	(11,431)
Total	16,265	15,047	33,184

Our prepayments, deposits and other receivables consist primarily of: (i) prepayment for raw material purchases; (ii) prepayments for acquisition of properties; (iii) other prepayments for listing expenses for the Global Offering; (iv) lease and utility deposits for offices and warehouses; (v) refundable deposits to guarantee companies in relation to bank borrowings; (vi) receivables from logistic services providers; and (vii) others.

Our prepayments, deposits and other receivables remained relatively stable from HK\$16.3 million as at 31 December 2012 to HK\$15.0 million as at 31 December 2013, primarily attributable to an increase in prepayment for acquisition of properties in 2012 in relation to our acquisition of a building for our expanded research and product development activities in Nanning, Guangxi Zhuang Autonomous Region, the effect of which was partially offset by an increase in prepayments for listing expenses for the Global Offering in 2013. Our prepayments, deposits and other receivables increased by HK\$18.2 million, or 120.5%, from HK\$15.0 million as at 31 December 2013 to HK\$33.2 million as at 31 December 2014, primarily attributable to: (i) our increased prepayments for raw material purchases as we started to build up our strategic inventory of raw Chinese herbs in 2014; and (ii) prepayment for our acquisition of a land parcel in order to expand our manufacturing facilities in Nanning, Guangxi Zhuang Autonomous Region in 2014.

Trade Payables

Our trade payables consist mainly of amounts outstanding for our purchases of raw materials in relation to our manufacture of products. We recognise our trade payables initially at fair value and subsequently measure them at amortised cost using the effective interest method.

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Our trade payables as at 31 December 2012, 2013 and 2014 were approximately 17.0%, 11.1% and 15.8% of our total current liabilities as at the same dates, respectively. Our trade payables decreased by HK\$18.9 million, or 38.8%, from HK\$48.8 million as at 31 December 2012 to HK\$29.9 million as at 31 December 2013, primarily because we increased our purchases of raw Chinese herbs for expanded production at the end of 2012 in order to reduce any impact of increases in raw material prices and control our procurement costs. Our trade payables increased by HK\$14.6 million, or 49.1%, from HK\$29.9 million as at 31 December 2013 to HK\$44.5 million as at 31 December 2014, primarily because we increased our purchases of raw Chinese herbs to manufacture more products by the end of 2014 in preparation for expected rising customer demand in the first quarter of 2015.

The following table sets forth an aging analysis of trade payables, based on the invoice date, as at the dates indicated:

	As at 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month.....	20,231	26,300	20,614
1 to 2 months	19,918	2,393	12,710
2 to 3 months	6,657	130	5,500
Over 3 months	1,977	1,050	5,722
Total	48,783	29,873	44,546

Our trade payables are non-interest bearing and are normally settled on terms of one to three months, extending to longer period with our long-standing suppliers. The following table sets forth our average trade payable turnover days for the years indicated:

	Year ended 31 December		
	2012	2013	2014
Average trade payable turnover days	128	117	101

Note:

- (1) The average trade payable turnover days are calculated by dividing the average of the opening and closing balances of trade payables for the relevant period by the corresponding cost of sales for the period and then multiplying by 365 days for a year.

Our average trade payable turnover days generally decreased during the Track Record Period, primarily because we increased our purchases through prepayment to suppliers to secure a stable supply of raw Chinese herbs to meet our increasing production volume.

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As at 30 April 2015, being the latest date for liquidity disclosure, approximately HK\$22.1 million, or 49.7%, of our total payable as at 31 December 2014, were subsequently paid.

Other Payables and Accruals

Our other payables consist primarily of: (i) salaries and welfare payables; (ii) marketing expense payables; (iii) listing expense payables for the Global Offering; (iv) fixed assets and intangible assets purchases; (v) prepayments from customers; (vi) other tax payables in relation to value-added tax; and (vii) others.

Our other payables were relatively stable as at 31 December 2012, 2013 and 2014.

Due from/to Related Parties

The following table sets forth the net balances of due from/to related parties as at the dates indicated:

	As at 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Due from:			
Mr. Chan	15,931	12,256	11,822
Fullgold Development.....	56	—	—
Other related companies	22,706	240	240
Due to:			
Mr. Chan	(3,134)	—	—
Purapharm Corp.	(11,929)	(12,436)	(12,365)
Other related companies	(68)	(416)	—

Due from Related Parties

The amount due from Mr. Chan of HK\$15.9 million, HK\$12.3 million and HK\$11.8 million as at 31 December 2012, 2013 and 2014, respectively, was mainly related to certain business expenses paid by us on behalf of Mr. Chan's related companies.

The amount due from Fullgold Development of HK\$56,000 as at 31 December 2012 was mainly related to certain business expenses incurred by the company in 2012 was paid by us on its behalf.

The amount due from other related companies of HK\$22.7 million, HK\$0.2 million and HK\$0.2 million as at 31 December 2012, 2013 and 2014, respectively, was mainly related to the account balances with various related companies as a result of the disposal of these companies, which were

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either dormant or were principally engaged in businesses which did not form part of our Group's core business, to Gold Sparkle Limited, a company controlled by Mr. Chan, in 2012 and 2013 for the purpose of streamlining our business.

Due to Related Parties

The amount due to Mr. Chan of HK\$3.1 million as at 31 December 2012 was mainly related to a loan from Mr. Chan to fund our working capital in 2012. Such loan is unsecured and bears interest at the HSBC base rate plus 0.25% per annum and is payable on demand.

The amount due to Purapharm Corp. of HK\$11.9 million, HK\$12.4 million and HK\$12.4 million as at 31 December 2012, 2013 and 2014, respectively, was mainly related to advances from the company to fund our working capital need.

The amount due to other related companies of HK\$68,000 and HK\$0.4 million as at 31 December 2012 and 2013, respectively, was mainly related to procurement with Petzup Laboratories Limited for our production and software licensing with HerbMiners for our CMCMS.

Except for those disclosed above, the amounts due from/to related parties are unsecured, interest-free and payable on demand. For a discussion of related party transactions, please refer to Note 33 to the Accountants' Report in Appendix I to this prospectus.

All these amounts due from and amounts due to related parties will be fully settled before completion of the Global Offering.

Our Directors confirm that the related party transactions were conducted in the ordinary and usual course of business and on normal commercial terms. Our Directors further confirm that relevant terms of such transactions were no less favourable to us than terms available to Independent Third Parties and were fair and reasonable and in the interests of our Shareholders as a whole.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We have historically met our working capital and other capital requirements principally with a combination of capital contributions by shareholders, cash generated from our operations and bank borrowings. Our primary liquidity requirements are to finance our working capital, fund the payments of interest and principal due on our indebtedness and fund the capital expenditures for expansion of our operational scale. In the future, we expect to continue to mainly rely on our cash flow from operations to fund our working capital needs and will use the proceeds from the Global Offering to finance part of our business expansion. As at 30 April 2015, we had HK\$229.4 million of banking facilities available to us from commercial banks, of which approximately HK\$52.2 million was not utilised, and cash and bank balances of HK\$24.6 million.

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General economic conditions may affect our ability to settle payment obligations with our customers. In the event of any cancellation of purchase orders and/or default on payment obligations by our customers, our cash flow, business operations and profitability would be adversely affected.

The following table sets forth selected cash flow data from our consolidated statements of cash flows for the periods indicated. For more information, please refer to Appendix I — “Accountants’ Report” to this prospectus.

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents at the beginning of year.....	(9,482)	16,870	25,039
Net cash from operating activities.....	62,128	11,034	31,091
Net cash used in investing activities	(37,793)	(6,268)	(24,634)
Net cash from/(used in) financing activities	2,165	2,355	(259)
Effect of foreign exchange rate changes, net	(148)	1,048	(562)
Cash and cash equivalents at the end of year	16,870	25,039	30,675

Operating Activities

Our cash inflow from our operating activities is generated from the sales of our CCMG products and Chinese healthcare products to our distributors and direct sales customers. Our cash used in our operating activities primarily includes payment and prepayment for purchases of raw materials, Hong Kong profits tax payment, and PRC corporate income tax payment.

For the year ended 31 December 2014, our net cash from operating activities was HK\$31.1 million, while our cash flows after adjustment for non-cash items but before changes in working capital was HK\$70.3 million. The difference of HK\$39.2 million was primarily attributable to: (i) an increase in inventories of HK\$24.6 million mainly because we increased our purchases of raw Chinese herbs and manufactured more products by the end of 2014 in preparation for expected rising customer demand in the first quarter of 2015; (ii) an increase in prepayments, deposits, and other receivables of HK\$18.8 million mainly due to our increased prepayments for raw material purchases as we started to build up our strategic inventory of raw Chinese herbs in 2014; and (iii) Hong Kong profits tax payment of HK\$3.6 million and PRC corporate income tax payment of HK\$2.7 million in 2014, partially offset by an increase in trade payables of HK\$15.7 million mainly due to our increased purchases of raw Chinese herbs for increased production towards the end of 2014.

For the year ended 31 December 2013, our net cash from operating activities was HK\$11.0 million, while our cash flows after adjustment for non-cash items but before changes in working capital was HK\$58.8 million. The difference of HK\$47.8 million was primarily attributable to: (i) an increase in trade receivables of HK\$30.3 million mainly due to the increased direct sales of our CCMG products to customers comprising state-owned hospitals and medical institutions in the PRC in 2013; (ii) a decrease in trade payables of HK\$19.9 million mainly because we settled our purchases of raw

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Chinese herbs for increased production at the end of 2012; and (iii) Hong Kong profits tax payment of HK\$3.5 million and PRC corporate income tax payment of HK\$3.4 million in 2013, the effects of which were partially offset by a decrease in inventories of HK\$8.9 million mainly because we sold a significant amount of our CCMG products and Chinese healthcare products in the fourth quarter of 2013.

For the year ended 31 December 2012, our net cash from operating activities was HK\$62.1 million, while our cash flows after adjustment for non-cash items but before changes in working capital was HK\$68.6 million. The difference of HK\$6.5 million was primarily attributable to an increase in trade payables of HK\$23.1 million mainly due to our increased purchases of raw Chinese herbs for increased production toward the end of 2012, the effects of which was partially offset by: (i) an increase in trade receivables of HK\$16.8 million mainly due to our increased product sales and business growth; (ii) an increase in prepayments, deposits, and other receivables of HK\$4.3 million mainly due to an increase in prepayment for consumables for production; and (iii) PRC corporate income tax payment of HK\$2.9 million and Hong Kong profits tax payment of HK\$2.4 million.

Investing Activities

Our cash outflow from investing activities primarily consists of purchases of production equipment, payment for our acquisition of properties, pledged deposits for bank loans, and due to related parties. Our cash inflow from investing activities primarily consists of receipts of government grants, and payment from related parties.

For the year ended 31 December 2014, our net cash used in investing activities was HK\$24.6 million. Cash used in investing activities for this period was primarily attributable to: (i) prepayment of HK\$9.7 million for our acquisition of a land parcel for our expanded manufacturing facilities in Nanning, Guangxi Zhuang Autonomous Region in 2014; (ii) purchases of property, plant and equipment of HK\$8.6 million mainly in relation to payment for purchases of production and CCMG product dispensary equipment in 2014; and (iii) an increase in pledge deposits of HK\$4.8 million mainly in relation to certain bank loans in 2014, the effects of which were partially offset by repayments from a director of HK\$3.3 million.

For the year ended 31 December 2013, our net cash used in investing activities was HK\$6.3 million. Cash used in investing activities for 2013 primarily attributable to: (i) purchases of property, plant and equipment of HK\$17.2 million mainly in relation to payment in relation to our acquisition of a building for our expanded research and product development activities in Nanning, Guangxi Zhuang Autonomous Region as well as payment for purchases of production and CCMG product dispensary equipment in 2013; and (ii) an increase in pledge deposits of HK\$15.9 million mainly in relation to certain bank loans in 2013, the effects of which were partially offset by repayment from related parties of HK\$24.2 million mainly to settle outstanding account balances.

For the year ended 31 December 2012, our net cash used in investing activities was HK\$37.8 million. Cash used in investing activities for 2012 was primarily attributable to: (i) purchases of property, plant and equipment of HK\$13.4 million mainly in relation to purchases of production and

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CCMG product dispensary equipment in 2012; (ii) advances to the immediate holding company of HK\$11.4 million mainly related to certain business expenses paid by us on its behalf; and (iii) advances to a director of HK\$10.1 million mainly related to certain business expenses paid by us.

Financing Activities

Our cash inflow from financing activities primarily consists of proceeds from new bank loans and other borrowings, and capital injection from equity holder. Our cash outflow from financing activities primarily consists of repayment of principals and interest for bank loans and other borrowings.

For the year ended 31 December 2014, our net cash used in financing activities was HK\$0.3 million. Cash used in financing activities for 2014 was primarily attributable to a net decrease in bank loans of HK\$17.2 million, the effect of which was partially offset by: (i) the capital injection of HK\$30.0 million from our immediate holding company, PuraPharm Corp. in 2014; and (ii) interest paid of HK\$13.1 million in relation to bank loans in 2014.

For the year ended 31 December 2013, our net cash generated from financing activities was HK\$2.4 million. Cash generated from financing activities for 2013 was primarily attributable to a net increase in new bank loans of HK\$19.2 million mainly for our working capital needs in 2013, the effect of which was partially offset by interest paid of HK\$13.1 million in relation to bank loans in 2013.

For the year ended 31 December 2012, our net cash generated from financing activities was HK\$2.2 million. Cash generated from financing activities for 2012 was primarily attributable to a net increase in bank loans of HK\$13.4 million for our working capital needs, the effect of which was partially offset by interest paid of HK\$10.9 million in relation to bank loans and other borrowings in 2012.

Capital Expenditures

During the Track Record Period, our capital expenditures were primarily related to: (i) purchases of property, plant and equipment in relation to our acquisition of a building in 2013 which is to be used for our research and product development and purchases of relevant equipment and machinery at our production facilities in Nanning, Guangxi Zhuang Autonomous Region; and (ii) legal fees incurred in relation to trademark and patent applications and software license fees. The following table sets forth a breakdown of our capital expenditure for the periods indicated:

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment.....	9,277	19,255	11,503
Intangible assets	1,714	1,621	2,757
TOTAL	10,991	20,876	14,260

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Between 31 December 2014 and the Latest Practicable Date, we did not make any material capital expenditures. We estimate that our total capital expenditures for the year ending 31 December 2015 and thereafter will increase as our business operations continue to expand. Our projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment in Hong Kong and the PRC. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

We anticipate that these capital expenditures will be financed primarily by proceeds from the Global Offering, cash flow generated from operating activities and bank loans. If necessary, we may raise additional funds on at commercially acceptable terms. Our estimated annual capital expenditures for the years ending 31 December 2015 are HK\$118.3 million.

Commitments

Operating Leases

We lease certain warehouses, office buildings and office equipment under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The following table sets forth our total future aggregate minimum operating lease payments under non-cancellable operating leases as at the dates indicated:

	As at 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	5,271	5,778	8,854
In the second to fifth years, inclusive	6,095	4,831	3,397
Total	11,366	10,609	12,251

Capital Commitments

In addition to operating lease commitments, we also have certain capital commitments. The following table sets forth our capital commitments as at the dates indicated:

	As at 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:			
Machinery and equipment	1,175	592	888
Intangible assets	—	180	—
Land and buildings	1,518	147	69,608
Total	2,693	919	70,496

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INDEBTEDNESS

As at 30 April 2015, we had total borrowings of HK\$177.2 million. The following table sets forth the components of our borrowings as at the dated indicated:

	As at 31 December			As at 30 April
	2012	2013	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current				
Bank loans - secured	159,384	167,053	166,631	158,049
Bank overdraft - secured	19,969	7,813	16,061	19,115
Bank loans - unsecured	—	2,780	—	—
Current portion of long term bank loans - secured.....	—	5,697	—	—
Finance lease payables.....	486	—	—	—
	<u>179,839</u>	<u>183,343</u>	<u>182,692</u>	<u>177,164</u>
Non-current				
Long term bank loans - secured.....	—	4,847	—	—
Total	<u><u>179,839</u></u>	<u><u>188,190</u></u>	<u><u>182,692</u></u>	<u><u>177,164</u></u>

The total outstanding amount of our bank loans and other borrowings increased by HK\$8.4 million, or 4.6%, from HK\$179.8 million as at 31 December 2012 to HK\$188.2 million as at 31 December 2013, and decreased by HK\$5.5 million, or 2.9%, to HK\$182.7 million as at 31 December 2014, and further decreased by HK\$5.5 million, or 3.0%, to HK\$177.2 million as at 30 April 2015, the latest date for liquidity disclosure, primarily due to the increased bank borrowings to finance our expanded business.

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The following table sets forth the maturity profile of our bank loans and overdrafts as at the dates indicated:

	As at 31 December			As at 30 April
	2012	2013	2014	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans and overdrafts repayable:				
Within one year or on demand.....	179,353	183,343	182,692	177,164
In the second year	—	4,847	—	—
	179,353	188,190	182,692	177,164
Finance lease repayable:				
Within one year	486	—	—	—
Total	179,839	188,190	182,692	177,164

The following table sets forth the ranges of effective interest rates of our finance lease payables, bank overdrafts, short term bank loan and long term bank loans repayable on demand as at the dates indicated:

	As at 31 December			As at 30 April
	2012	2013	2014	2015
Finance lease payables	2.75 — 3.75	—	—	—
Bank overdrafts - secured	5.25 — 6.00	5.25 — 6.00	4.75 — 6.00	4.75 — 6.00
Bank loans - secured.....	2.10 — 10.64	2.21 — 9.84	2.20 — 9.84	2.38 — 7.80
Bank loans - unsecured	—	4.51 — 4.52	—	—
Long term bank loans - secured	—	2.21 — 6.77	—	—

Except for unsecured bank loans in the amount of HK\$2.8 million as at 31 December 2013, all of our other bank loans and overdrafts during the Track Record Period and up to the latest date for liquidity disclosure were secured by our Group's assets. Please refer to Note 23 to the Accountants' Report in Appendix I to this prospectus for further discussion. In addition, certain of our bank loans are guaranteed under the special loan guarantee scheme sponsored by the Government of Hong Kong.

As at 30 April 2015, the latest date for liquidity disclosure, we had utilised banking facilities in a total amount of HK\$177.2 million and unrestricted and unutilised banking facilities in a total amount of HK\$52.2 million.

Our Directors confirm that there is no material change in our indebtedness position since 30 April 2015, the latest date for liquidity disclosure, up to the date of this prospectus.

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We intend to continue to finance portions of our capital expenditure with bank borrowings, as we deem appropriate. Except for such bank borrowings, we currently do not have plans for other material external debt financing.

Our Directors confirm that the agreements under our banking borrowings do not contain any covenant that will have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors further confirm that we had no material defaults in payment of trade and non-trade payables and bank borrowings, nor did we breach any financial covenants during the Track Record Period. Our Directors further confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulty in obtaining credit facilities, or withdrawal of facilities, request for early repayment, default in payments or breach of financial covenants of bank borrowings.

Contingent Liabilities

Except as described above, during the Track Record Period and up to the Latest Practicable Date, 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 (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements or commitments to guarantee the payment obligations of any third parties. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

WORKING CAPITAL

As at 31 December 2012, 2013 and 2014, we had cash and cash equivalents of HK\$16.9 million, HK\$25.0 million and HK\$30.7 million, respectively. As at 31 December 2012 and 2013, we recorded net current liability which amounted to HK\$50.7 million and HK\$28.2 million, respectively. The primary reason for the net current liabilities was due to the financing of our expanded business with increased bank borrowings. As at 30 April 2015, we had net current liabilities of approximately HK\$2.6 million. The primary reason for the net current liabilities was due to the remaining prepayment of approximately HK\$18.7 million which was made in the four months ended 30 April 2015 for the acquisition of a land parcel to expand our manufacturing facilities in Nanning. As at 30 April 2015, the total prepayment for such land acquisition amounted to HK\$28.4 million. In connection with the prepayment, our cash and cash equivalents decreased and as the acquisition for the land was classified as non-current asset, we incurred net current liabilities as at 30 April 2015.

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We have adopted the following measures to ensure that we have sufficient financial resources to meet our working capital requirements going forward:

- *Banking facilities.* As at 30 April 2015, we had utilised banking facilities of HK\$177.2 million and our unrestricted and unutilised banking facilities amounted to HK\$52.2 million. We have maintained long-term business relationships with certain banks so as we are able to obtain sufficient lines of funding to meet our liquidity requirements.
- *Cash from our operating activities.* We intend to continue funding our cash and liquidity requirements from the net cash generated from our operating activities as our business continues to expand. Our net cash from operating activities increased from HK\$11.0 million for the year ended 31 December 2013 to HK\$31.1 million for the year ended 31 December 2014.

In view of the above, our Directors are of the view, and the Sole Sponsor concurs, after due consideration and discussion with our senior management that, we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

We manage our capital structure by making periodic adjustments to it in light of changes in economic conditions and the risk characteristics of our underlying assets. If our existing cash resources are insufficient to meet our requirement, we may seek to obtain credit facilities, adjust dividend payments to shareholders or sell or issue equity securities, which might result dilution to our shareholders. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all, where our business and financial results may be adversely affected.

KEY FINANCIAL RATIOS

The following table sets forth certain key financial ratios as at the dates or for the periods indicated.

	As at 31 December		
	2012	2013	2014
Current ratio (%) ⁽¹⁾	82.3	89.5	108.2
Net gearing ratio ⁽²⁾	3.3	2.1	1.0
	Year ended 31 December		
	2012	2013	2014
Net profit margin (%) ⁽³⁾	15.3	7.7	9.4
Return on equity (%) ⁽⁴⁾	100.3	36.0	25.4
Return on total assets (%) ⁽⁵⁾	13.2	7.6	8.2
EBITDA margin (%) ⁽⁶⁾	24.8	16.0	18.8
Interest coverage ⁽⁷⁾	5.6	3.3	4.2

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Notes:

- (1) Current ratio as at 31 December 2012, 2013 and 2014, respectively, was calculated based on our total current assets as at the respective dates divided by our total current liabilities as at the same dates.
- (2) Net gearing ratio as at 31 December 2012, 2013 and 2014, respectively, was calculated based on our net debt (total interest-bearing bank and other borrowings (including, among others, loan from a shareholder) less cash and cash equivalents) divided by our total equity as at the respective dates.
- (3) Net profit margin for the years ended 31 December 2012, 2013 and 2014, respectively, was calculated based on our net profit for the respective periods divided by our revenue for the same periods.
- (4) Return on equity for the years ended 31 December 2012, 2013 and 2014, respectively, was calculated based on our profit for the respective periods divided by our total equity as at the respective dates and multiplied by 100%.
- (5) Return on total assets for the years ended 31 December 2012, 2013 and 2014, respectively, was calculated based on our profit for the respective periods divided by our total assets as at the respective dates and multiplied by 100%.
- (6) EBITDA is the result of our profit before income tax adding back interest expenses, depreciation and amortisation. EBITDA margin for the years ended 31 December 2012, 2013 and 2014, respectively, was calculated based on EBITDA divided by our revenue for the respective periods.
- (7) Interest coverage for the years ended 31 December 2012, 2013 and 2014, respectively, was calculated based on our profit before interest and tax divided by finance costs for the respective periods.

The following is a brief analysis of the salient aspects of the above financial ratios:

- *Current ratio.* Our current ratio increased from 82.3% as at 31 December 2012 to 89.5% as at 31 December 2013, and further to 108.2% as at 31 December 2014, primarily attributable to the decrease in trade payables in 2013 as we increased our purchases of raw Chinese herbs for expanded production at the end of 2012 and our cash and bank balance increased mainly as a result of our profit growth in 2014.
- *Net gearing ratio.* Our net gearing ratio decreased from 3.3 as at 31 December 2012 to 2.1 as at 31 December 2013, and further to 1.0 as at 31 December 2014, primarily because our total equity increased mainly as a result of our profit growth during the Track Record Period and our share capital increased in relation to capital injection from our immediate holding company, PuraPharm Corp., in 2014.
- *Net profit margin.* Our net profit margin decreased from 15.3% for the year ended 31 December 2012 to 7.7% for the year ended 31 December 2013, primarily attributable to: (i) an increase in administrative expenses of HK\$25.1 million mainly as a result of an increase of HK\$8.0 million in staff costs as we increased the employee headcount for our expanded business in 2013, an increase of HK\$7.8 million in research and development costs in relation to our research and product development activities in 2013 and the listing expenses of HK\$1.8 million incurred for the Global Offering in 2013; (ii) an increase in selling and distribution expenses of HK\$23.7 million mainly as a result of an increase of HK\$19.4 million in advertising and promotion expenses as we promoted our Chinese healthcare products under our Nong's® (農本方)® brand in Hong Kong and devoted more marketing resources to expand our CCMG product direct sales channel in the PRC in 2013, and an increase of HK\$2.5 million in staff costs mainly as a result of the expansion of our sales and distribution network and our efforts to strengthen our marketing and sales team in

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2013; and (iii) a decrease of HK\$6.2 million in gain on disposal of subsidiaries for the period from 2012 to 2013 as we disposed of seven companies in 2012 and the remaining company in 2013, and all of these disposed companies were either dormant or were principally engaged in businesses not forming part of our Group's core business.

Our net profit margin increased from 7.7% for the year ended 31 December 2013 to 9.4% for the year ended 31 December 2014, primarily attributable to a decrease in selling and distribution expenses of HK\$2.7 million mainly as a result of a decrease of HK\$2.3 million in advertising and promotion expenses as we incurred certain marketing expenses to promote our Chinese healthcare products under Nong's Formula® (農本方®沖劑) brand in Hong Kong in 2013 and a decrease of HK\$1.2 million in travelling and business development expenses mainly as result of our consolidation of distribution network in the PRC in 2014, the effect of which was partially offset by an increase in administrative expenses of HK\$1.3 million mainly as a result of an increase of HK\$4.0 million in the listing expenses incurred for the Global Offering in 2014, and an increase of HK\$1.7 million in staff costs as we increased the employee headcount for our expanded business and the average salary level of our administrative employees also increased in 2014.

- *Return on equity.* Our return on equity ratio decreased from 100.3% for the year ended 31 December 2012 to 36.0% for the year ended 31 December 2013, primarily attributable to a decrease in our net profit in 2013. Our return on equity ratio decreased from 36.0% for the year ended 31 December 2013 to 25.4% for the year ended 31 December 2014, primarily because our total equity increased as a result of increased share capital in relation to capital injection from PuraPharm Corp., in 2014.
- *Return on total assets.* Our return on total assets ratio decreased from 13.2% for the year ended 31 December 2012 to 7.6% for the year ended 31 December 2013, primarily attributable to: (i) a decrease in our net profit in 2013; and (ii) an increase in our total assets mainly as a result of our business growth in 2013. Our return on total assets ratio increased from 7.6% for the year ended 31 December 2013 to 8.2% for the year ended 31 December 2014, primarily attributable to an increase in our net profit in 2014.
- *EBITDA margin.* Our EBITDA margin decreased from 24.8% for the year ended 31 December 2012 to 16.0% for the year ended 31 December 2013, primarily attributable to a decrease in our overall net profit margin in 2013. Our EBITDA margin increased from 16.0% for the year ended 31 December 2013 to 18.8% for the year ended 31 December 2014, primarily attributable to an increase in our overall net profit margin in 2014.
- *Interest coverage.* Our interest coverage decreased from 5.6 for the year ended 31 December 2012 to 3.3 for the year ended 31 December 2013, primarily attributable to our increased interest expenses incurred and decreased net profit in 2013. Our interest coverage increased from 3.3 for the year ended 31 December 2013 to 4.2 for the year ended 31 December 2014, primarily attributable to our increased net profit in 2014.

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QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business, including market risk (consisting of fluctuations in interest rates and foreign exchange rates), credit risk and liquidity risk, as well as changes in the cost of raw materials. We manage our exposure to these and other market risks through regular operating and financial activities.

Cash Flow and Fair Value Interest Rate Risk

Other than cash and cash equivalent, we have no other significant interest-bearing assets. Management does not anticipate significant impact on interest-bearing assets resulting from the changes in interest rates, because the interest rates of cash and cash equivalent are not expected to change significantly.

Our interest rate risk arises from interest-bearing bank borrowings. Borrowings issued at variable rates expose us to cash flow interest rate risk. Borrowings obtained at fixed rates expose us to fair value interest rate risk. We currently do not use any interest rate swap contracts or other financial instruments to hedge against interest rate exposure. We will, however, continue to monitor interest rate exposure and will consider hedging significant interest rate risk exposure should the need arise.

Foreign Currency Risk

We mainly operate in Hong Kong and are exposed to foreign currency risk arising from various currency exposures, primarily with respect to RMB. Foreign exchange risk arises from trade and bills receivables, cash and cash equivalents, trade payables and borrowings of our Group in foreign currencies. Our Group did not hedge against any fluctuation in foreign currency during the Track Record Period. Management may consider entering into currency hedging transactions to manage our exposure to fluctuations in exchange rates in the future. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency exchange rates. As at 31 December 2012, 2013 and 2014, with all other variables remain constant, if the Hong Kong dollar had strengthened/weakened by 5% against the RMB, our net profit for the years ended 31 December 2012, 2013 and 2014 would have decreased/increased by HK\$3.6 million, HK\$3.0 million and HK\$3.7 million, respectively. Please refer to Note 37 to the Accountants' Report in Appendix I to this prospectus for further discussion on foreign currency risk.

Credit Risk

We believe there is no significant concentration credit risk on our trade and bills receivables due to our diversified customer bases. Our maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to our other financial assets, including cash and bank balances, amounts due from the ultimate holding company and other receivables, is the carrying amount of those assets stated in the consolidated statements of balance sheets. The objective of our measures to manage credit risk is to control potential exposure to recoverability problems.

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Certain of our sales are settled in cash by our customers on delivery of goods and services. Credit sales are made only to selected customers with good credit history. We have policies in place to ensure that trade and bills receivables are followed up on a timely basis. Please refer to the subsection “Business — Sales and Distribution Network — Credit Management Policy” in this prospectus for further details on our credit management policy.

At 31 December 2012, 2013 and 2014, all cash and cash equivalents were placed in highly reputable and sizable banks and financial institutions without significant credit risk.

Liquidity Risk

We monitor risks of funding shortage using a recurring liquidity planning tool, which takes into consideration the maturity of both our financial investments and financial assets and projected cash flows from operations. We have maintained a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. Please refer to Note 37 to the Accountants’ Report in Appendix I to this prospectus for further discussion on liquidity risk.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates is primarily related to our debt obligations with a floating interest rate. Please refer to Note 37 to the Accountants’ Report in Appendix I to this prospectus for further discussion on interest rate risk.

Price Risk

We are exposed to commodity price risk, mainly due to the fluctuations in prices of raw materials. During the Track Record Period, we were exposed to the market risk of price fluctuation of raw Chinese herbs, which may directly affect our financial performance and results of operations. We have adopted a series of measures to reduce our exposure to such price fluctuations, including, among other things, our pricing adjustment mechanism. However, we cannot guarantee you that we will be able to fully pass on any increase in raw material costs to our customers, and that our measures are adequate and effective to prevent any impact of such price fluctuations on our gross profit margins. Please also refer to the paragraph headed “Risk Factors — We rely on a stable supply of quality raw materials to manufacture our Chinese medicine products, and a decrease in the supply, or an increase in the cost, of these raw materials could materially and adversely affect our business, financial condition and results of operations” for further discussion on the price risks.

Capital Risk Management

Our objectives when managing capital are (i) to safeguard our ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders; and (ii) to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, we may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules are set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the equity owners of our Company as at 31 December 2014 as if the Global Offering had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of their hypothetical nature, they may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 31 December 2014 or at any future dates. The unaudited pro forma adjusted net tangible assets are prepared based on the audited consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 31 December 2014 as set out in the Accountants' Report of the Company, the text of which is set out in Appendix II to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to the equity owners of the Company as at 31 December 2014⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity owners of the Company	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on an Offer Price of HK\$5.16 per Share	128,555	244,668	373,223	1.7
Based on an Offer Price of HK\$6.19 per Share	128,555	300,288	428,843	1.9

Notes:

- (1) The consolidated net tangible assets attributable to the equity shareholders of the Company as of 31 December 2014 is based on the consolidated net assets attributable to the equity shareholders of the Company of HK\$135.7 million as of 31 December 2014 after an adjustment for the intangible assets of HK\$7.1 million as of the date as shown in the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Prices of HK\$5.16 and HK\$6.19 per Share, respectively, being the lower end price and higher end price of the stated Offer Price range, after deduction of the underwriting fees and other related expenses payable by the Company of HK\$45.6 million and HK\$47.9 million, respectively.

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- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to the equity shareholders of the Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 225,000,000 Shares were in issue assuming that the Global Offering had been completed on 31 December 2014 (comprising 56,250,000 new Shares and 14,880,000 Sale Shares in the Global Offering but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or of any Shares which may be issued upon the exercise of any option which may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and the general mandate to repurchase Shares) and the respective Offer Prices of HK\$5.16 and HK\$6.19 per Share.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2014.

DIVIDEND POLICY

Subject to the Cayman Companies Law, through a general meeting, we may declare dividends in any currency, but no dividend may be declared in excess of the amount recommended by our Board. Our Memorandum and Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine are no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorized for this purpose in accordance with the Cayman Companies Law and our Memorandum of Articles of Association.

Our Directors will declare dividends, if any, in Hong Kong dollars with respect to our Shares on a per-Share basis and will pay such dividends in Hong Kong dollars. During the Track Record Period, we have not declared any dividends. The actual amount of any dividends to be declared or distributed to our Shareholders in the future will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders.

We will re-evaluate our dividend policy annually. Our Board has the absolute discretion to decide whether to declare or distribute dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

DISTRIBUTABLE RESERVES

Our Company's distributable reserves consist of retained profits, if any. As at 31 December 2014, we had reserves of HK\$81.7 million, which are available for distribution to our equity shareholders.

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LISTING EXPENSES

The estimated total listing expenses incurred in relation to the Listing (excluding fees payable by the Selling Shareholders) are approximately HK\$46.8 million (including, among other, estimated underwriting commission of approximately HK\$9.6 million based on the Offer Price of HK\$5.68 per Share being the mid-point of the Offer Price range as disclosed in this prospectus). During the Track Record Period, we incurred listing expenses of approximately HK\$7.5 million which has been reflected in our consolidated statements of profit or loss. We expect to incur additional listing expenses of approximately HK\$39.3 million after the Track Record Period, of which approximately HK\$16.4 million will be recognised as expenses in the consolidated statements of profit or loss for the year ending 31 December 2015 and the remainder will be recognised directly in equity upon Listing. We expect that the listing expenses to be incurred in connection with the Global Offering for the year ending 31 December 2015 will have a material adverse impact on our results of operations.

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

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules, with respect to advance to an entity, financial assistance and guarantees to affiliated companies of an issuer, pledging of shares by the controlling shareholders, covenants in loan agreements relating to specific performance of the controlling shareholders, and breach of loan agreement by an issuer.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2014 (being the date to which our Company's latest consolidated audited financial results were prepared) and there is no event since 31 December 2014 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the subsection headed “Business — Our Business Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate the net proceeds of the Global Offering which we will receive, assuming an Offer Price of HK\$5.68 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$272.7 million, after deduction of underwriting fees and commissions and estimated expenses payable by us in connection with the Global Offering and assuming that the Over-allotment Option is not exercised.

We intend to use the net proceeds of the Global Offering for the following purposes:

- Approximately 30.0%, or HK\$81.8 million, will be used to expand our manufacturing facilities and improvement of our existing production line with the allocation as indicated below:

Purposes	Percentage of net proceeds
Construct new manufacturing facilities.....	24.0%
Purchase advanced production equipment and machinery	6.0%

- Approximately 25.0%, or HK\$68.2 million, will be used to establish new Nong’s® (農本方)® Chinese medicine clinics in Hong Kong and the PRC.
- Approximately 20.0%, or HK\$54.5 million, will be used to expand our distribution network into our new target cities in the PRC mainly through our collaboration with Sinopharm, including: (i) purchases of CMCMS equipment for new customers (with an average cost of HK\$150,000 for each dispensary system); (ii) training of new distributors and hospital personnel on the operation and maintenance of our CMCMS; (iii) provision of after-sales and maintenance services; and (iv) the establishment and renovation of our direct sales Chinese medicine dispensaries in approved hospitals and medical institutions in the PRC.
- Approximately 15.0%, or HK\$40.9 million, will be used to fund for the development and launch of the following two new PCM products, including: (i) completion of the required clinical trials in the PRC; (ii) new product registrations in Hong Kong and the PRC; and (iii) relevant testing, sampling and project management. The allocation between these two products is set out below:

New PCM product	Percentage of net proceeds
Puerarin Phospholipids Complex Capsules (葛根素磷脂複合物膠囊).....	8.4%
Ren Shu Chang Le Granules (仁術腸樂顆粒)	6.6%

FUTURE PLANS AND USE OF PROCEEDS

- Approximately 10.0%, or HK\$27.3 million, will be used for our working capital and other general corporate purposes.

We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholders in the Global Offering. The Selling Shareholders estimate that they will receive, in aggregate, net proceeds from the Global Offering of approximately HK\$84.5 million, assuming an Offer Price of HK\$5.68 per Share (being the mid-point of the Offer Price range disclosed in this prospectus).

If the Offer Price is determined at HK\$6.19 per Offer Share (being the high end of the Offer Price range stated in this prospectus), we will receive additional net proceeds of approximately HK\$27.5 million. If the Offer Price is determined at HK\$5.16 per Offer Share (being the low end of the Offer Price range stated in this prospectus and assuming that the Over-allotment Option is not exercised), the net proceeds we receive from the Global Offering will be reduced by approximately HK\$28.1 million. The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is determined at a higher or lower level compared to the midpoint of the estimated Offer Price range.

The additional net proceeds that we would receive if the Over-allotment Option were exercised in full would be (i) HK\$63.4 million (assuming an Offer Price of HK\$6.19 per Share, being the high-end of the Offer Price range stated in this prospectus), (ii) HK\$58.2 million (assuming an Offer Price of HK\$5.68 per Share, being the mid-point of the Offer Price range stated in this prospectus) and (iii) HK\$52.9 million (assuming an Offer Price of HK\$5.16 per Share, being the low-end of the Offer Price range stated in this prospectus). Additional net proceeds received due to the exercise of any Over-allotment Option will be used for the above purposes accordingly on a pro rata basis in the event that the Over-allotment Option is exercised.

In the event that any of our projects does not proceed as planned, including as a result of circumstances such as changes in government policies that would render any of our plans not commercially viable, or force majeure. Our Directors will carefully evaluate the situation and may reallocate the net proceed from the Global Offering.

To the extent that the net proceeds from the Global Offering are not immediately used for the purposes described above and to the extent permitted by the relevant laws and regulations, they will be placed in short term demand deposits with banks in Hong Kong or the PRC and/or through money market instruments.

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

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

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HONG KONG UNDERWRITERS

Joint Lead Managers

BOCOM International Securities Limited
DBS Asia Capital Limited

Co-Lead Managers

RHB OSK Securities Hong Kong Limited
Bright Smart Securities International (H.K.) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

We are offering the Hong Kong Public Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued, and to certain other conditions described in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator (on behalf of the Hong Kong Underwriters), and our Company agreeing to the Offer Price), the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional in accordance with its terms and not having been terminated in accordance with its terms or otherwise.

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall be entitled by notice in writing to terminate the Hong Kong Underwriting Agreement with immediate effect if any of the following events shall occur prior to 8:00 a.m. on the Listing Date:

- (i) there develops, occurs, exists or comes into force:
 - (a) any event or series of events resulting in or representing a calamity or crisis or a change or development involving a prospective change, in local, national, regional or international financial, political, military, industrial, economic, fiscal or market conditions or sentiments (including, without limitation, conditions and sentiments in stock and bond markets, money and foreign exchange markets, investment and credit markets and inter-bank markets) or currency exchange rate or controls in or affecting

UNDERWRITING

Hong Kong, the PRC, the United States, Japan, Australia, the European Union (or any member thereof), the BVI, the United Kingdom, the Cayman Islands, or any other jurisdiction relevant to any member of the Group (collectively the “**Relevant Jurisdictions**”); or

- (b) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
- (c) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, riots, public disorder, declaration of a national or international emergency, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), epidemic, pandemic, outbreak of infectious disease (including without limitation SARS, MERS, H5N1 or H1N1 or swine or avian influenza or such related/mutated forms), accident or interruption or delay in transportation or economic sanctions) in or affecting any of the Relevant Jurisdictions; or
- (d) the imposition or declaration of (A) any moratorium, suspension, restriction or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, NYSE Amex Equities, the Tokyo Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the London Stock Exchange or the stock exchange in any other member of the European Union or (B) any moratorium on, or disruption in, banking activities (commercial or otherwise) or foreign exchange trading or securities settlement or clearing services in or affecting any of the Relevant Jurisdictions; or
- (e) any change or development involving a change or prospective change in taxation or exchange controls (or the implementation of any exchange control) or currency exchange rates or foreign investment regulations in or affecting any of the Relevant Jurisdictions (including without limitation any fluctuation in the Hong Kong dollars or Renminbi against any foreign currencies); or
- (f) any imposition of economic sanction or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (g) any change or development or event involving a prospective change in the Group’s assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects, or any change in capital stock or long-term debt of our Company or any other member of our Group, or any loss or interference with the assets, operations or business of our Company or any other member of the Group, which (in any such case) is not set forth in this prospectus; or

UNDERWRITING

- (h) save as disclosed in this prospectus, a demand by any tax authority for payment for any tax liability for any member of the Group; or
- (i) a demand by any creditor for repayment or payment of any indebtednesses of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (j) non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription of the Hong Kong Public Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law,

and which, in any such case (whether individually or in the aggregate) and in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (A) is or will or may be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of the Group as a whole; or
 - (B) has or will or may have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or
 - (C) makes or will or may make it impracticable, inadvisable or inexpedient to proceed with any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering and/or the Global Offering or the delivery of Shares on the terms and in the manner contemplated by this prospectus or for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented as envisaged; or
- (ii) there has come to the notice of the Sole Global Coordinator:
- (a) that any statement contained in any of our formal notice in relation to the Hong Kong Public Offering and the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement) was or has become untrue or incorrect in any material respect or misleading in any respect, or that any estimate, forecast, expression of opinion, intention or expectation contained in this prospectus or any notice, advertisement or announcement issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
 - (b) any matter which would, if our formal notice in relation to the Hong Kong Public Offering and the Hong Kong Public Offering Documents and/or any notice, advertisement or announcement issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) were issued at that time, constitute a material omission therefrom; or

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- (c) the issue or requirement to issue by our Company of a supplemental prospectus or amendment to this prospectus; or
- (d) that any of the Warranties (as defined in the Hong Kong Underwriting Agreement) or representations and warranties given by our Company and the Controlling Shareholders and the Selling Shareholders under the Hong Kong Underwriting Agreement is (or would if repeated at that time be) breached or is untrue or incorrect in any respect or misleading; or
- (e) any event, act or omission which gives rise or is likely to give rise to any material liability of our Company or any of the Controlling Shareholders pursuant to the indemnities under the Hong Kong Underwriting Agreement; or
- (f) any breach of any of the obligations or undertakings of our Company, the Controlling Shareholders or the Selling Shareholders under the Hong Kong Underwriting Agreement, the International Underwriting Agreement or any other agreement relating to the Global Offering; or
- (g) any adverse change in or any development involving a prospective adverse change in, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus in a significant manner; or
- (h) that (A) any Director, chief executive officer or chief financial officer of our Company named in this prospectus resigned or retired, or is removed from office, or (B) any certificate given by our Company or any of its officers to the Sole Global Coordinator under or in connection with the Hong Kong Underwriting Agreement or the Global Offering is false or misleading, or (C) any Director as named in this prospectus is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (i) the commencement by any judicial, regulatory, governmental or political body or law enforcement agency or organisation of any material action, claim or proceedings against any Director or an announcement by any judicial, regulatory, governmental or political body or law enforcement agency or organisation that it intends to take any such action; or
- (j) save as disclosed in this prospectus, a material contravention by any member of the Group of the Listing Rules or the Companies Ordinance or any applicable law or regulations; or
- (k) any material litigation, legal action or claim being threatened or instigated against any member of the Group, our Directors or the Controlling Shareholders; or
- (l) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up

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of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

- (m) a prohibition on our Company or the Selling Shareholders for whatever reason from allotting, issuing or selling the Offer Shares (including the Shares to be sold pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (n) our Company withdraws this prospectus and/or the Application Forms; or
- (o) approval by the Listing Committee for the listing of, and permission to deal in, the Shares to be issued or sold (including any Shares that may be sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (p) Ernst & Young as the Reporting Accountants, Jun He Law Offices as the legal advisers to our Company on PRC law, Appleby as the legal advisers to our Company on Cayman Islands law, or Euromonitor as the industry consultant in relation to the Global Offering, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

Undertakings to the Hong Kong Underwriters

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, except pursuant to the Reorganisation, the Capitalisation Issue, the Global Offering, the Over-Allotment Option and options which may be granted under the Share Option Scheme, 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**”), our Company has undertaken to each of the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, 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

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securities of our Company or any shares or other securities of such other member 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 member of our Group, 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 shares or other securities of such other member 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 member of our Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member 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 period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in (i), (ii) or (iii) above 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.

Undertakings by the Controlling Shareholders

Each of the Controlling Shareholders has undertaken to each of our Company, the Sole Global Coordinator, the Hong Kong Underwriters and the Sole Sponsor that, save as pursuant to the Stock Borrowing Agreement and/or the Share Option Scheme, without the prior written consent of BOCOM International Securities (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) it will not, at any time during the First Six-Month Period,
 - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge (other than any pledge or charge of our Company’s issued share capital after the consummation of the Global Offering (assuming the Over-allotment Option is not exercised) in favour of an authorised institution as defined in the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) for a bona fide commercial loan in compliance with Rule 10.07 of the Listing Rules), hypothecate, lend, grant or sell any option, warrant, contract or right

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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

- (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 interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (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 other member 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);

- (ii) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (i)(a), (b) or (c) 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, it will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of our Company; and
- (iii) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into our Company's equity securities (whether or not of a class already issued) may be issued by our Company or form the subject of any agreement to such

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an issue by our Company within six months from the Listing Date (whether or not such issue of Shares or our Company's securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange and to our Company that, they will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of their shareholdings is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which they are shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, they would cease to be our Controlling Shareholders.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of their shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, they will:

- (a) when they pledge or charge any Shares beneficially owned by them in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when they receive indications, either verbal or written, from the pledgee or chargee of any Shares that any of the pledged or charged Shares will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of matters referred to above by any of the Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Listing Rules as soon as possible.

International Offering

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with, among others, our Controlling Shareholders, the Selling Shareholders and the International Underwriters, on terms and conditions that are substantially similar

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to the Hong Kong Underwriting Agreement as described above and on the additional terms described below. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or purchase or procure subscribers for the International Offer Shares being offered pursuant to the International Offering.

Over-allotment Option

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the Price Determination Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 10,669,500 additional Shares representing 15% of the Offer Shares initially offered under the Global Offering, at the same price per Share under the International Offering to cover, among other things, over-allocations in the International Offering, if any.

Commissions and Expenses

The Company agrees to pay the Sole Global Coordinator (for itself and on behalf of the Underwriters) an underwriting commission at the rate of 3.0% of the aggregate Offer Price payable for the Offer Shares (including the Shares to be issued pursuant to the Over-allotment Option but excluding any Sale Shares the underwriting commission for which will be borne by the Selling Shareholders). In addition, BOCOM will receive a sponsor fee in the amount of HK\$3.8 million. Furthermore, our Company agrees to pay to the Sole Global Coordinator an incentive fee of 1.0% of the aggregate Offer Price payable for the Offer Shares (including the Shares to be issued pursuant to the Over-allotment Option but excluding any Sale Shares the incentive fee for which will be borne by the Selling Shareholders).

The underwriting commissions, incentive fee, documentation fee, listing fees, Stock Exchange trading fee and transaction levy, legal and other professional fees, and printing and other expenses in relation to the Global Offering (comprising 56,250,000 new Shares to be offered for subscription by our Company and 14,880,000 Sale Shares to be offered for sale by the Selling Shareholders in the Global Offering) are estimated to amount to approximately HK\$46.8 million in total (excluding fees payable by the Selling Shareholders) (based on the Offer Price of HK\$5.68 per Share, being the mid-point of the indicative Offer Price range of HK\$5.16 to HK\$6.19 per Share and assuming the Over-allotment Option is not exercised), and are payable by our Company.

The Selling Shareholders will pay underwriting commission, incentive fee and brokerage fee, SFC transaction levy and Stock Exchange trading fee and any stamp or capital duty (if any) or premium duty (if any) in respect of the Sale Shares.

UNDERWRITERS' INTERESTS IN OUR COMPANY

The Sole Global Coordinator and other Underwriters will receive an underwriting commission. Particulars of these under underwriting commission and expenses are set out in the paragraph headed “— Underwriting Arrangements and Expenses” in this section for further information.

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Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor 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 member of our Group nor any interest in the Global Offering.

MINIMUM PUBLIC FLOAT

Our Directors and our Company 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.

SOLE SPONSOR'S INDEPENDENCE

BOCOM is considered to be an independent sponsor pursuant to Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. BOCOM is the Sole Sponsor, and BOCOM International Securities Limited is the Sole Global Coordinator and Sole Bookrunner.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offering of 7,113,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described under the subsection headed “— The Hong Kong Public Offering” in this section below; and
- the International Offering of 64,017,000 Shares, comprising 49,137,000 Shares to be offered by us and 14,880,000 Sale Shares to be offered by the Selling Shareholders (subject to adjustment as mentioned below) outside the United States in reliance on Regulation S of the Securities Act as described under the subsection headed “— The International Offering” in this section below.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the Offer Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S of the Securities Act.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to adjustment as described in the subsection headed “— Pricing and Allocation” in this section.

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$6.19 per Offer Share and is expected to be not less than HK\$5.16 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants under the Hong Kong Public Offering must pay, on application, the maximum indicative Offer Price of HK\$6.19 per Hong Kong Public Offer Share plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$3,126.18

STRUCTURE OF THE GLOBAL OFFERING

for one board lot of 500 Shares. Each Application Form includes a table showing the exact amount payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$6.19, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. See the section headed “How to Apply for Hong Kong Public Offer Shares — 13. Refund of Application Monies” in this prospectus for further details.

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around the Price Determination Date.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Tuesday, 30 June 2015 and in any event, no later than 12:00 noon on Friday, 3 July 2015.

If, for any reason, our Company (for ourselves and on behalf of the Selling Shareholders) and the Sole Global Coordinator (on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 12:00 noon on Friday, 3 July 2015, the Global Offering will not proceed and will lapse.

Reduction in Offer Price range and/or number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters) considers it appropriate and together with the consent of our Company (for ourselves and on behalf of the Selling Shareholders), the indicative Offer Price range and/or the number of Hong Kong Public Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, our Company (for ourselves and on behalf of the Selling Shareholders) will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company’s website at www.purapharm.com notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon,

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will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Allocation

The Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Allocation of the Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of the Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. The allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the International Offering and the basis of allocations of the Hong Kong Public Offer Shares are expected to be announced on Tuesday, 7 July 2015 on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.purapharm.com.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC or by

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applying online through the **White Form eIPO** Service Provider under the **White Form eIPO** service, will be made available through a variety of channels as described in the subsection headed “How to Apply for Hong Kong Public Offer Shares — 11. Publication of Results” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional upon, among other things:

- the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be made available or issued pursuant to the Capitalisation Issue, the exercise of the Over- allotment Option and any Shares which may fall to be issued upon the exercise of the options which may be granted under the Share Option Scheme);
- the Offer Price having been duly agreed on or around the Price Determination Date;
- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the International Underwriting Agreement and the Hong Kong Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will cause to be published by us on the website of the Stock Exchange at www.hkexnews.hk and our Company’s website at www.purapharm.com on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the subsection headed “How to Apply for Hong Kong Public Offer Shares — 13. Refund of Application Monies” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

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Share certificates for the Offer Shares are expected to be issued on Tuesday, 7 July 2015 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 8 July 2015, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Grounds for termination” in this prospectus has not been exercised.

THE HONG KONG PUBLIC OFFERING

Number of Shares initially offered

Our Company is initially offering 7,113,000 Shares at the Offer Price, representing 10% of the 71,130,000 Offer Shares initially available under the Global Offering. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offering will represent approximately 3.2% of the total issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection headed “— Conditions of the Global Offering” in this section.

Allocation

For allocation purposes only, the Hong Kong Public Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 3,556,500 Hong Kong Public Offer Shares and Pool B will comprise 3,556,500 Hong Kong Public Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 3,556,500 Hong Kong Public Offer Shares (being 50% of the initial number of Hong Kong Public Offer Shares).

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Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 21,339,000, 28,452,000 and 35,565,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B equally.

If the Hong Kong Public Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may reallocate International Offer Shares (other than the Sale Shares which are to be offered for sale by the Selling Shareholders pursuant to the International Offering) from the International Offering to the Global Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares (other than the Sale Shares which are to be offered for sale by the Selling Shareholders pursuant to the International Offering) to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Applications

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

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THE INTERNATIONAL OFFERING

Number of Offer Shares offered

The number of the Offer Shares to be initially offered for subscription by our Company and for sale by the Selling Shareholders under the International Offering will be 64,017,000 Shares, representing 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the Shares with institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S of the Securities Act. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the “book- building” process described in the subsection headed “— Pricing and Allocation” in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its International Offer Shares after the Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

OVER-ALLOTMENT OPTION

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging of Application Forms under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, our Company may be required to sell up to 10,669,500 Shares, representing 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price.

STOCK BORROWING AGREEMENT

BOCOM International Securities Limited, as the Stabilising Manager, or any person acting for it may choose to borrow Shares from Fullgold Development, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercise of the Over-allotment Option. The Stock Borrowing Agreement will not be 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 to be complied with as follows:

- such stock borrowing arrangement with Fullgold Development will only be effected by the Stabilising Manager for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering;

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- the maximum number of Shares borrowed from Fullgold Development under the Stock Borrowing Agreement 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 Fullgold Development or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, (ii) the date on which the Over-allotment Option is exercised in full, and (iii) such earlier time as the parties may from this to time agree in writing;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- no payment will be made to Fullgold Development by the Stabilising Manager or its authorised agents in relation to such stock borrowing arrangement.

STABILISATION AND OVER-ALLOTMENT

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, BOCOM International Securities Limited, as Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Offer Shares that may be over-allocated will not exceed the number of Offer Shares that may be sold under the Over-allotment Option, namely, 10,669,500 Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Offer Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Offer Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Offer Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Offer Shares for the sole purpose of preventing or minimising any

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reduction in the market price of the Shares; (v) selling or agreeing to sell any Offer Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Stabilising action by the Stabilising Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation.

Specifically, prospective applicants for and investors in the Shares should note that:

- Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which Stabilising Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by Stabilising Manager may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the last business day immediately before the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, Stabilising Manager may over-allocate up to and not more than an aggregate of 10,669,500 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 settlement of over-allocations in connection with the International Offering, Stabilising Manager may borrow up to 10,669,500 Shares from Fullgold Development, equivalent to the maximum number of Shares to be issued on the full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

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SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares 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 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.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 8 July 2015, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 8 July 2015. The Shares will be traded in board lots of 500 Shares each and the stock code of the Company is 1498.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO**, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our 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.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 25 June 2015 until 12:00 noon on Tuesday, 30 June 2015 from:

- (i) any of the following addresses of the Hong Kong Underwriters:

	Address
BOCOM International Securities Limited	9th Floor, Man Yee Building, 68 Des Voeux Road Central, Hong Kong
DBS Asia Capital Limited	17th Floor, The Center 99 Queen's Road Central Hong Kong

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

	Address
RHB OSK Securities Hong Kong Limited	12/F World-Wide House 19 Des Voeux Road Central Hong Kong
Bright Smart Securities International (H.K.) Limited	10/F, Wing On House 71 Des Voeux Road Central Hong Kong

(ii) any of the branches of the following receiving banks:

(a) Bank of Communications Co., Ltd. Hong Kong Branch

	Branch Name	Address
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	Kennedy Town Sub-Branch	G/F., 113-119 Belcher's Street, Kennedy Town
Kowloon	Tsim Sha Tsui Sub-Branch	Shop 1-3, G/F., 22-28 Mody Road, Tsim Sha Tsui
	Lam Tin Sub-Branch	Shop No.5 & 9, G/F., Kai Tin Tower, 63-65 Kai Tin Road, Lam Tin
New Territories	Tiu Keng Leng Sub-Branch	Unit L2-064 & 065, Metro Town Shopping Mall, 8 King Ling Road, Tiu Keng Leng
	Fanling Sub-Branch	Shop No. 84A-84B, G/F., Flora Plaza, Fanling

(b) DBS Bank (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island	North Point Branch	G/F, 391 King's Road, North Point
	Hennessy Road Branch	G/F, 427-429 Hennessy Road, Causeway Bay
	Aberdeen Branch	Shops A & B, G/F, Units A & B, 1/F, On Tai Building, 1-3 Wu Nam Street, Aberdeen
Kowloon	Hoi Yuen Road Branch	Unit 2, G/F, Hewlett Centre, 54 Hoi Yuen Road, Kwun Tong

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

	Branch Name	Address
	Yaumatei Branch	G/F & 1/F, 131-137 Woo Sung Street, Yau Ma Tei
New Territories	Ma On Shan Branch	Shop 205-206, Level 2, Ma On Shan Plaza, Ma On Shan
	Shatin Plaza Branch	Shop 47 & 48, Level 1, Shatin Plaza, No. 21-27 Sha Tin Centre Street, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 25 June 2015 until 12:00 noon on Tuesday, 30 June 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. — PuraPharm Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving banks listed above, at the following times:

Thursday, 25 June 2015 — 9:00 a.m. to 5:00 p.m.
Friday, 26 June 2015 — 9:00 a.m. to 5:00 p.m.
Saturday, 27 June 2015 — 9:00 a.m. to 1:00 p.m.
Monday, 29 June 2015 — 9:00 a.m. to 5:00 p.m.
Tuesday, 30 June 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 **Tuesday, 30 June 2015**, the last application day or such later time as described in the subsection headed "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Selling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, the Selling Shareholders, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Selling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company (for ourselves and on behalf of the Selling Shareholders) and/or our agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE**

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or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO

General

Individuals who meet the criteria in the subsection headed “Who can apply” in this section, may apply through the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** 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 **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 25 June 2015 until 11:30 a.m. on Tuesday, 30 June 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 30 June 2015 or such later time under the “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

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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).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the White Form eIPO Service Provider, will contribute HK\$2 per each “PuraPharm Corporation Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of the “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System at <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre

1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from the above address.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, the Selling Shareholders, our Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Selling Shareholders, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, the Selling Shareholders, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that we will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;
- agree with our Company, for ourselves and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of number of 500 Hong Kong Public Offer Shares. Instructions for more than 500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 25 June 2015 — 9:00 a.m. to 8:30 p.m.⁽¹⁾

Friday, 26 June 2015 — 8:00 a.m. to 8:30 p.m.⁽¹⁾

Saturday, 27 June 2015 — 8:00 a.m. to 1:00 p.m.⁽¹⁾

Monday, 29 June 2015 — 8:00 a.m. to 8:30 p.m.⁽¹⁾

Tuesday, 30 June 2015 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 25 June 2015 until 12:00 noon on Tuesday, 30 June 2015 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 30 June 2015, the last application day or such later time as described in the subsection headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Selling Shareholders, our Hong Kong Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **White Form eIPO** is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Selling Shareholders, our Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 30 June 2015.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“**Unlisted company**” means a company with no equity securities listed on the Stock Exchange.

“**Statutory control**” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Public Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** in respect of a minimum of 500 Hong Kong Public Offer Shares. Each application or electronic application instruction in respect of more than 500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation”.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 30 June 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 30 June 2015 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Tuesday, 7 July 2015 on our Company’s website at www.purapharm.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.purapharm.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Tuesday, 7 July 2015;
- from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, 7 July 2015 to 12:00 midnight on Monday, 13 July 2015;
- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, 7 July 2015 to Friday, 10 July 2015;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 7 July 2015 to Thursday, 9 July 2015 at all the receiving bank’s designated branches and sub-branches.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(ii) If our Company or our agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

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13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$6.19 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Tuesday, 7 July 2015.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 7 July 2015. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 8 July 2015 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 7 July 2015 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 7 July 2015, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 7 July 2015, by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 7 July 2015, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS participant.

If you are applying as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 7 July 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO

If you apply for 1,000,000 Hong Kong Public 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 Shops 1712-1716, 17th, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 7 July 2015, or such other date as notified by our Company as the date of despatch/collection of Share certificates/ e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 7 July 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(iv) IF YOU APPLY VIA ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 7 July 2015, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, 7 July 2015. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 7 July 2015 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 7 July 2015. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 7 July 2015.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

25 June 2015

The Directors
PuraPharm Corporation Limited
BOCOM International (Asia) Limited

Dear Sirs,

We set out below our report on the financial information of PuraPharm Corporation Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2012, 2013 and 2014 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2012, 2013 and 2014, together with the notes thereto (the “Financial Information”), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 25 June 2015 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 December 2011. Pursuant to a group reorganisation (the “Reorganisation”) as set out in the section headed “History, Reorganisation and Corporate Structure” to the Prospectus, which was completed on 30 April 2012, the Company became the holding company of the subsidiaries now comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation as it is not subject to statutory audit requirements under the relevant laws and regulations in the jurisdiction of incorporation. As at the end of the Relevant Periods, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (the “HKASs”) and Interpretations 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 in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors’ responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with HKFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2012, 2013 and 2014 and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

(I) FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended 31 December		
		2012	2013	2014
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	5	287,811	342,303	366,352
Cost of sales		(103,210)	(123,086)	(134,241)
Gross profit		184,601	219,217	232,111
Other income and gains	5	13,996	7,956	5,794
Selling and distribution expenses		(78,166)	(101,940)	(99,176)
Administrative expenses		(54,628)	(79,711)	(81,028)
Other expenses		(4,791)	(2,683)	(2,307)
Finance costs	7	(10,959)	(13,149)	(13,064)
PROFIT BEFORE TAX	6	50,053	29,690	42,330
Income tax expense	10	(5,911)	(3,399)	(7,823)
PROFIT FOR THE YEAR		<u>44,142</u>	<u>26,291</u>	<u>34,507</u>
Attributable to:				
Owners of the parent	11	44,094	26,264	34,463
Non-controlling interest		<u>48</u>	<u>27</u>	<u>44</u>
		<u>44,142</u>	<u>26,291</u>	<u>34,507</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PROFIT FOR THE YEAR	<u>44,142</u>	<u>26,291</u>	<u>34,507</u>
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value.....	203	272	297
Income tax effect.....	<u>(34)</u>	<u>(44)</u>	<u>(49)</u>
	169	228	248
Exchange differences on translation of foreign operations	<u>209</u>	<u>2,566</u>	<u>(2,054)</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>378</u>	<u>2,794</u>	<u>(1,806)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>44,520</u>	<u>29,085</u>	<u>32,701</u>
Attributable to:			
Owners of the parent	44,472	29,058	32,657
Non-controlling interest	<u>48</u>	<u>27</u>	<u>44</u>
	<u>44,520</u>	<u>29,085</u>	<u>32,701</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	31 December		
		2012	2013	2014
		HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS				
Property, plant and equipment	13	71,827	80,694	77,729
Prepaid land lease payments	14	2,968	2,952	2,832
Intangible assets	15	4,209	5,222	7,134
Available-for-sale investments	16	9,962	10,234	10,531
Prepayments for non-current assets	19	6,137	3,859	11,431
Deferred tax assets	26	2,333	4,936	5,047
Total non-current assets		<u>97,436</u>	<u>107,897</u>	<u>114,704</u>
CURRENT ASSETS				
Inventories	17	76,943	65,214	89,893
Trade and bills receivables	18	67,326	98,744	103,098
Prepayments, deposits and other receivables	19	16,265	15,047	33,184
Due from a director	33(c)(i)	15,931	12,256	11,822
Due from the ultimate holding company	33(c)(ii)	56	—	—
Due from related companies	33(c)(v)	22,706	240	240
Pledged bank deposits	20	—	15,861	20,633
Cash and cash equivalents	20	36,839	32,852	46,736
Total current assets		<u>236,066</u>	<u>240,214</u>	<u>305,606</u>
CURRENT LIABILITIES				
Trade payables	21	48,783	29,873	44,546
Other payables and accruals	22	39,299	38,682	37,688
Interest-bearing bank and other borrowings	23	179,839	183,343	182,692
Loans from a director	33(c)(iii)	3,134	—	—
Due to the immediate holding company	33(c)(iv)	11,929	12,436	12,365
Due to related companies	33(c)(v)	68	416	—
Tax payable		2,855	2,041	3,780
Government grants	25	899	1,649	1,504
Total current liabilities		<u>286,806</u>	<u>268,440</u>	<u>282,575</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(50,740)</u>	<u>(28,226)</u>	<u>23,031</u>
TOTAL ASSETS LESS CURRENT LIABILITIES				
LIABILITIES		<u>46,696</u>	<u>79,671</u>	<u>137,735</u>
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	23	—	4,847	—
Government grants	25	2,647	1,712	1,909
Deferred tax liabilities	26	22	—	13
Total non-current liabilities		<u>2,669</u>	<u>6,559</u>	<u>1,922</u>
Net assets		<u>44,027</u>	<u>73,112</u>	<u>135,813</u>
EQUITY				
Equity attributable to owners of the parent				
Share capital	27	—	—	30,000
Reserves	28(a)	43,974	73,032	105,689
		43,974	73,032	135,689
Non-controlling interest		53	80	124
Total equity		<u>44,027</u>	<u>73,112</u>	<u>135,813</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent									
	Share capital	Merger reserve	Surplus reserves	Capital reserve	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	Retained profits/ (Accumulated losses)	Total	Non-controlling interest	Total equity
	HK\$'000 (note 27)	HK\$'000 (note 28(a))	HK\$'000 (note 28(a))	HK\$'000 (note 28(a))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012	—	4,135	7,943	(7,624)	(344)	8,865	(11,152)	1,823	—	1,823
Profit for the year	—	—	—	—	—	—	44,094	44,094	48	44,142
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments, net of tax	—	—	—	—	169	—	—	169	—	169
Exchange differences on translation of foreign operations	—	—	—	—	—	209	—	209	—	209
Total comprehensive income for the year	—	—	—	—	169	209	44,094	44,472	48	44,520
Capital contribution from non-controlling interest ..	—	—	—	—	—	—	—	—	5	5
Deemed distribution to the immediate holding company	—	(2,321)	—	—	—	—	—	(2,321)	—	(2,321)
Transfer from retained profits	—	—	3,130	—	—	—	(3,130)	—	—	—
At 31 December 2012	—	1,814*	11,073*	(7,624)*	(175)*	9,074*	29,812*	43,974	53	44,027

Attributable to owners of the parent										
	Share capital	Merger reserve	Surplus reserves	Capital reserve	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interest	Total equity
	HK\$'000 (note 27)	HK\$'000 (note 28a)	HK\$'000 (note 28(a))	HK\$'000 (note 28(a))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013.....	—	1,814	11,073	(7,624)	(175)	9,074	29,812	43,974	53	44,027
Profit for the year.....	—	—	—	—	—	—	26,264	26,264	27	26,291
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments, net of tax.....	—	—	—	—	228	—	—	228	—	228
Exchange differences on translation of foreign operations.....	—	—	—	—	—	2,566	—	2,566	—	2,566
Total comprehensive income for the year.....	—	—	—	—	228	2,566	26,264	29,058	27	29,085
Transfer from retained profits.....	—	—	5,273	—	—	—	(5,273)	—	—	—
At 31 December 2013.....	—	1,814*	16,346*	(7,624)*	53*	11,640*	50,803*	73,032	80	73,112

Attributable to owners of the parent										
	Share capital	Merger reserve	Surplus reserves	Capital reserve	Available-for-sale investment revaluation reserve	Exchange fluctuation reserve	Retained profits	Total	Non-controlling interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 27)	(note 28a)	(note 28(a))	(note 28(a))						
At 1 January 2014.....	—	1,814	16,346	(7,624)	53	11,640	50,803	73,032	80	73,112
Profit for the year.....	—	—	—	—	—	—	34,463	34,463	44	34,507
Other comprehensive income for the year:										
Changes in fair value of available-for-sale investments, net of tax.....	—	—	—	—	248	—	—	248	—	248
Exchange differences on translation of foreign operations.....	—	—	—	—	—	(2,054)	—	(2,054)	—	(2,054)
Total comprehensive income for the year.....	—	—	—	—	248	(2,054)	34,463	32,657	44	32,701
Issue of shares.....	30,000	—	—	—	—	—	—	30,000	—	30,000
Transfer from retained profits.....	—	—	3,586	—	—	—	(3,586)	—	—	—
At 31 December 2014.....	<u>30,000</u>	<u>1,814*</u>	<u>19,932*</u>	<u>(7,624)*</u>	<u>301*</u>	<u>9,586*</u>	<u>81,680*</u>	<u>135,689</u>	<u>124</u>	<u>135,813</u>

* These reserve accounts comprise the consolidated reserves of HK\$43,974,000, HK\$73,032,000 and HK\$105,689,000 in the consolidated statements of financial position as at 31 December 2012, 2013 and 2014, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December		
		2012	2013	2014
		HK\$'000	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax:		50,053	29,690	42,330
Adjustments for:				
Finance costs	7	10,959	13,149	13,064
Gain on disposal of subsidiaries	5	(7,408)	(1,205)	—
Foreign exchange loss/(gain), net.....		1,337	266	(780)
Gain on disposal of an associate.....		(22)	—	—
Loss/(gain) on disposal of items of property, plant and equipment		(112)	142	245
Depreciation		9,840	11,346	12,749
Amortisation of prepaid land lease payments....		77	78	77
Amortisation of intangible assets		394	621	837
Write-down of inventories to net realisable value		2,330	3,880	2,450
Impairment of trade and other receivables		1,243	1,060	—
Bank interest income	5	(81)	(255)	(714)
		68,610	58,772	70,258
Decrease/(increase) in inventories		(1,821)	8,863	(24,564)
Increase in trade and bills receivables.....		(16,797)	(30,299)	(3,268)
Decrease/(increase) in prepayments, deposits and other receivables.....		(4,301)	1,880	(18,839)
Increase/(decrease) in trade payables.....		23,071	(19,908)	15,732
Increase/(decrease) in government grants		(906)	(249)	(660)
Decrease in other payables and accruals.....		(558)	(1,348)	(2,048)
Cash generated from operations		67,298	17,711	36,611
Interest received		81	255	714
Hong Kong profits tax paid.....		(2,391)	(3,546)	(3,551)
PRC corporate income tax paid.....		(2,860)	(3,386)	(2,683)
Net cash flows from operating activities		62,128	11,034	31,091
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment.....		(13,426)	(17,187)	(8,586)
Proceeds from disposal of items of property, plant and equipment		132	132	457
Purchase of intangible assets.....		(1,714)	(1,621)	(2,757)
Prepayment for prepaid land lease payments		—	—	(9,678)

	Notes	Year ended 31 December		
		2012	2013	2014
		HK\$'000	HK\$'000	HK\$'000
Advances to a director		(10,125)	(2,001)	(2,878)
Repayments from a director		—	5,676	3,312
Repayments from/(advances to) the ultimate holding company		(10)	56	—
Advances to related companies		(3,450)	—	—
Repayments from related companies.....		2,131	24,190	—
Advances from related companies		68	348	—
Repayments to related companies.....		—	—	(416)
Advances to the immediate holding company		(11,399)	—	(71)
Receipt of government grants.....		—	—	755
Increase in pledged deposits		—	(15,861)	(4,772)
Net cash flows used in investing activities.....		<u>(37,793)</u>	<u>(6,268)</u>	<u>(24,634)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank loans and other borrowings.....		304,339	351,552	286,323
Repayment of bank loans		(290,863)	(332,428)	(303,518)
Interest paid.....		(10,919)	(13,109)	(13,064)
Increase/(decrease) in loans from a director		163	(3,134)	—
Capital injection		—	—	30,000
Capital element of finance lease rental payments .		(515)	(486)	—
Interest element of finance lease rental payments		<u>(40)</u>	<u>(40)</u>	<u>—</u>
Net cash flows generated/(used in) from financing activities		<u>2,165</u>	<u>2,355</u>	<u>(259)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS.....				
Cash and cash equivalents at beginning of year ...		(9,482)	16,870	25,039
Effect of foreign exchange rate changes, net.....		<u>(148)</u>	<u>1,048</u>	<u>(562)</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....		<u><u>16,870</u></u>	<u><u>25,039</u></u>	<u><u>30,675</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	20	36,839	32,852	46,736
Bank overdrafts.....	23	<u>(19,969)</u>	<u>(7,813)</u>	<u>(16,061)</u>
Cash and cash equivalents as stated in the consolidated statements of cash flows.....		<u><u>16,870</u></u>	<u><u>25,039</u></u>	<u><u>30,675</u></u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	Year ended 31 December		
		2012	2013	2014
		HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS				
Investments in subsidiaries.....		—	—	—
CURRENT ASSETS				
Prepayments.....	19	25	617	25
Due from the immediate holding company	33	—	102	102
Due from subsidiaries	33	—	—	21,606
Total current assets		25	719	21,733
CURRENT LIABILITIES				
Accruals	22	—	300	972
Due to subsidiaries	33	52	2,640	—
Total current liabilities.....		52	2,940	972
NET CURRENT ASSETS/(LIABILITIES)		(27)	(2,221)	20,761
TOTAL ASSETS LESS CURRENT LIABILITIES AND NET ASSETS/(LIABILITIES).....				
		<u>(27)</u>	<u>(2,221)</u>	<u>20,761</u>
EQUITY				
Issued capital.....	27	—	—	30,000
Reserves	28(b)	(27)	(2,221)	(9,239)
Total equity		<u>(27)</u>	<u>(2,221)</u>	<u>20,761</u>

(II) NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND REORGANISATION

The Company was incorporated as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands on 2 December 2011. The registered office address is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally engaged in the research, development, manufacturing and sale of concentrated Chinese medicine granule ("CCMG") products and Chinese healthcare products, as well as rendering of Chinese medical diagnostic services.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus. In the opinion of the directors of the Company (the "Directors"), the immediate holding company of the Company is PuraPharm Corporation Limited ("PP BVI"), which was incorporated in the British Virgin Islands ("BVI") and the ultimate holding company is Fullgold Development Limited, which was incorporated in BVI and is wholly owned by Mr. Abraham, Chan Yu Ling ("Abraham Chan"), the Founder of the Group.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated/registered outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of principal subsidiaries are set out below:

Name	Date of incorporation/registration	Place of incorporation/registration and operations	Nominal value of issued ordinary share capital/paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
PuraPharm Holdings Limited ¹	12/22/2010	BVI	US\$1	100%	—	Investment holding
Natural Corporation Limited ⁴	7/9/1997	Hong Kong	HK\$100	—	100%	Trading of Chinese healthcare products
PuraPharm International (H.K.) Limited ³	5/4/1998	Hong Kong	HK\$2,000,000	—	100%	Manufacturing and trading of Chinese healthcare products
Nong's International Limited ¹	5/5/1998	BVI	US\$1	—	100%	Investment holding and trading of healthcare products and modernised Chinese medicines

Name	Date of incorporation/registration	Place of incorporation/registration and operations	Nominal value of issued ordinary share capital/paid-up/registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
PuraPharm (Nanning) Pharmaceuticals Co. Limited ²	8/19/1998	Mainland China	HK\$30,000,000	—	100%	Manufacturing and trading of Chinese healthcare products and modernised Chinese medicines
PuraPharm International (Singapore) Pte Limited ⁵	5/23/2000	Singapore	SG\$2	—	100%	Trading of Chinese healthcare products
PuraPharm Corporation ¹	6/22/2000	United States of America	US\$1,000	—	100%	Trading of Chinese healthcare products
Nong's Corporation Limited ¹	8/22/2000	BVI	US\$25,019	—	100%	Investment holding
Purapharm Research Corporation Limited ⁴	9/17/2001	Hong Kong	HK\$10,000	—	100%	Research and development of modernised Chinese medicines
PuraPharm International Limited ⁴	5/22/2002	Hong Kong	HK\$2	—	100%	Trading of Chinese healthcare products
Nong's Company Limited ³	6/26/2002	Hong Kong	HK\$2	—	100%	Trading of modernised Chinese medicines
Nong's Chinese Medicine Health Care Centre Limited ⁴	12/27/2002	Hong Kong	HK\$10,000	—	51%	Provision of Chinese medical diagnostic service
Poly Modern TCM Research Institute Limited ⁴	3/19/2003	Hong Kong	HK\$48,160,000	—	100%	Trading of Chinese healthcare products
Nong's Clinic Holdings Limited ¹	8/19/2003	BVI	US\$1,283	—	100%	Investment holding
Nong's Chinese Medicine Clinic Centre Limited ⁴	10/15/2003	Hong Kong	HK\$2	—	100%	Provision of Chinese medical diagnostic service
PuraPharm Investment Limited ⁴	5/24/2006	Hong Kong	HK\$1	—	100%	Trading of Chinese medicines
PuraPharm Health Limited ¹	12/22/2010	BVI	US\$1	—	100%	Investment holding
PuraPharm (Macao) Limited ¹	8/3/2012	Macao	MOP25,000	—	100%	Trading of healthcare products and modernised Chinese medicines

Name	Date of incorporation/ registration	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
PuraPharm Canada Corporation ¹	3/8/2012	Canada	HK\$100	—	100%	Trading of Chinese healthcare products
Nong's Healthcare 1 Limited ¹	2/24/2014	Hong Kong	HK\$1	—	100%	Provision of Chinese medical diagnostic service
Nong's Healthcare 2 Limited ¹	2/24/2014	Hong Kong	HK\$1	—	100%	Provision of Chinese medical diagnostic service
Nong's Healthcare 3 Limited ¹	5/29/2014	Hong Kong	HK\$1	—	100%	Provision of Chinese medical diagnostic service
Nong's Healthcare 4 Limited ¹	5/29/2014	Hong Kong	HK\$1	—	100%	Provision of Chinese medical diagnostic service
Nong's Healthcare 5 Limited ¹	9/23/2014	Hong Kong	HK\$1	—	100%	Provision of Chinese medical diagnostic service
Nong's (Guangxi) Company Limited ¹	9/29/2014	Hong Kong	HK\$10,000	—	100%	Investment holding

- No audited financial statements have been prepared for the companies since the dates of their respective incorporation as these companies are either not subject to statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation or have not been involved in any significant business transactions other than the Reorganisation.
- The statutory financial statements of the entity for the years ended 31 December 2012, 2013 and 2014 prepared under the People's Republic of China ("PRC") Generally Accepted Accounting Principles were audited by Guangxi Guixincheng Certified Public Accountants Co., Ltd., Certified Public Accountants registered in the PRC.
- The statutory financial statements of the entities for the years ended 31 December 2012 and 2013 prepared under HKFRSs were audited by Ernst & Young, Hong Kong.
- The statutory financial statements of the entities for the years ended 31 December 2012 and 2013 prepared under HKFRSs were audited by K.M.LEE & CO., Certified Public Accountants registered in Hong Kong.
- The statutory financial statements of the entity for the years ended 31 December 2012 and 2013 prepared under Singapore Financial Standards for Small Entities were audited by R CHAN & ASSOCIATES PAC, Chartered Accountants of Singapore.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” to the Prospectus, the Company became the holding company of the companies now comprising the Group on 30 April 2012. The companies now comprising the Group were under the common control of PP BVI, the Controlling Shareholder, before and after the Reorganisation. Accordingly, for the purpose of this report, the Financial Information has been prepared by applying the principles of merger accounting, as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or business first came under the common control of the Controlling Shareholder, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2012, 2013 and 2014 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholder’s perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than the Controlling Shareholder prior to the Reorganisation are presented as non-controlling interest in equity in applying the principles of merger accounting. All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The financial information have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. The Financial Information is presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the years ended 31 December 2012, 2013 and 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interest, even if this results in the non-controlling interest having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	<i>Financial Instruments</i> ⁴
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> ²
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ²
HKFRS 14	<i>Regulatory Deferral Accounts</i> ⁵
HKFRS 15	<i>Revenue from Contracts with Customers</i> ³
Amendments to HKAS 1	<i>Disclosure Initiative</i> ²
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ²
Amendments to HKAS 19	<i>Defined Benefit Plans: Employee Contributions</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ²
<i>Annual Improvements 2010-2012 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2011-2013 Cycle</i>	Amendments to a number of HKFRSs ¹
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs ²

- ¹ Effective for annual periods beginning on or after 1 July 2014
- ² Effective for annual periods beginning on or after 1 January 2016
- ³ Effective for annual periods beginning on or after 1 January 2017
- ⁴ Effective for annual periods beginning on or after 1 January 2018
- ⁵ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The

standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements in five areas, including materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. The amendments further encourage entities to apply professional judgement in determining what information to disclose and how to structure the disclosure in the financial statements. The Group expects to adopt the amendments from 1 January 2016.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's consolidated statements of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interest and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposal of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its available-for-sale investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the consolidated statements of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment is credited to the consolidated statements of profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statements of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.5% to 9%
Leasehold improvements	Over the shorter of the lease terms and 20%
Machinery and equipment	4.5% to 30%
Office equipment and furniture	9% to 30%
Motor vehicles	9% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated statements of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks, patents, licences and software

Purchased trademarks, patents, licences and software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 15 years.

Research and development costs

All research costs are charged to the consolidated statements of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated statements of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statements of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statements of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include available-for-sale investments, cash and cash equivalents, pledged deposits, trade and bills receivables, financial assets included in prepayments, deposits and other receivables and amounts due from a director, the ultimate holding company, and related companies.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statements of profit or loss. The loss arising from impairment is recognised in the consolidated statements of profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in life insurance policies.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated statements of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the consolidated statements of profit or loss in other gains or losses. Interest earned whilst holding the available-for-sale financial investments is reported as interest income and is recognised in the consolidated statements of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statements of profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statements of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statements of profit or loss.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statements of profit or loss, is removed from other comprehensive income and recognised in the statements of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statements of profit or loss — is removed from other comprehensive income and recognised in the statements of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group’s financial liabilities include trade payables, financial liabilities included in other payables and accruals, loans from a director, amounts due to immediate holding company and related companies and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statements of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statements of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statements of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statements of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statements of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the rendering of services, when the relevant services have been rendered and it is probable that economic benefits will flow to the Group and the revenue can be measured reliably; and
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Employee benefits

As stipulated by the rules and regulations of Mainland China, the Company's subsidiary which operates in Mainland China is required to contribute to a state-sponsored retirement plan for all its Mainland China employees at certain percentages of the basic salaries predetermined by the local governments. The state-sponsored retirement plan is responsible for the entire retirement benefit obligations payable to retired employees and the Group has no further obligations for the actual retirement benefit payments or other post-retirement benefits beyond the annual contributions.

Under the Mandatory Provident Fund Schemes Ordinance in Hong Kong, the Company's subsidiaries registered in Hong Kong operate a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The costs of employee retirement benefits are recognised as expenses in the consolidated statements of profit or loss in the period in which they are incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statements of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statements of profit or loss.

For the purpose of the consolidated statements of cash flows, the cash flows of certain subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of certain subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Financial Information:

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distribution of dividends from a subsidiary according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether the subsidiary of the Group is determined to be Chinese resident enterprise by the PRC governing tax authorities in the future. Management considered that it is not probable that the Group's subsidiary in the PRC will distribute retained profits as at the end of each of the Relevant Periods in the foreseeable future, and accordingly no provision for withholding tax was made. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The balance of deferred tax assets relating to recognised deductible temporary differences amounted to HK\$3,097,000, HK\$5,737,000 and HK\$6,088,000 as at 31 December 2012, 2013 and 2014, respectively. Further details are contained in note 26 to the financial information.

Useful lives and residual values of property, plant and equipment

In determining the useful life and residual value of an item of property, plant and equipment, the Group considers various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

Impairment of trade and other receivables

The policy for provision for impairment loss of the Group is based on the evaluation of collectability, the aging analysis of trade and other receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The provision for impairment of trade and other receivables amounted to HK\$1,578,000, HK\$516,000 and HK\$338,000 as at 31 December 2012, 2013 and 2014, respectively.

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the provision required involves management's judgement and estimates on market conditions. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of inventories and the write-down charge/write-back of inventories in the period in which such estimate has been changed. The provision for write-down of inventories to net realisable value amounted to HK\$1,860,000, HK\$4,416,000 and HK\$3,748,000 as at 31 December 2012, 2013 and 2014, respectively.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the consolidated statements of profit or loss. The carrying amounts of available-for-sale financial assets as at 31 December 2012, 2013 and 2014 were HK\$9,962,000, HK\$10,234,000 and HK\$10,531,000, respectively.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the China CCMG segment mainly engages in the production, sale and research of modernised Chinese medicines in Mainland China;
- (b) the Hong Kong CCMG segment mainly engages in the sale and research of modernised Chinese medicines in Hong Kong;
- (c) the Chinese healthcare products segment mainly engages in the production, sale and research of healthcare products in Hong Kong and Mainland China; and
- (d) the clinics segment mainly engages in the provision of Chinese medical diagnostic service.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss after tax. The adjusted profit or loss after tax is measured consistently with the Group's profit or loss before tax except the government grants, interest income, gain on disposal of subsidiaries, finance costs, corporate and other unallocated expenses and income tax expense.

Intersegment revenues are eliminated on consolidation. Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

The following tables present revenue, segment profit and other segment information for the Group's operating segments for the years ended as at 31 December 2012, 2013 and 2014, respectively.

31 December 2012

	China CCMG	Hong Kong CCMG	Chinese healthcare products	Clinics	Elimination	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue:						
Revenue to external customers	123,483	120,317	43,359	652	—	287,811
Intersegment sales	66,577	921	6,368	—	(73,866)	—
	<u>190,060</u>	<u>121,238</u>	<u>49,727</u>	<u>652</u>	<u>(73,866)</u>	<u>287,811</u>
Segment results	30,731	21,778	14,433	37	—	66,979
<i>Reconciliations:</i>						
Government grants						4,643
Interest income						81
Gain on disposal of subsidiaries						7,408
Finance costs						(10,959)
Corporate and other unallocated expenses						<u>(18,099)</u>
Profit before tax						50,053
Income tax expense						<u>(5,911)</u>
Net profit						<u>44,142</u>
Other segment information:						
Depreciation and amortisation	8,041	1,471	638	161	—	10,311
Provision for impairment of inventories	1,453	—	877	—	—	2,330
Impairment of trade and other receivables	1,243	—	—	—	—	1,243

31 December 2013

	China CCMG	Hong Kong CCMG	Chinese healthcare products	Clinics	Elimination	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Segment revenue:						
Revenue to external customers	171,755	135,317	34,565	666	—	342,303
Intersegment sales	<u>77,264</u>	<u>2,370</u>	<u>594</u>	<u>—</u>	<u>(80,228)</u>	<u>—</u>
	<u>249,019</u>	<u>137,687</u>	<u>35,159</u>	<u>666</u>	<u>(80,228)</u>	<u>342,303</u>
Segment results	44,938	27,385	(4,930)	28	—	67,421
<i>Reconciliations:</i>						
Government grants						4,308
Interest income						255
Gain on disposal of a subsidiary						1,205
Finance costs						(13,149)
Corporate and other unallocated expenses						<u>(30,350)</u>
Profit before tax						29,690
Income tax expenses						<u>(3,399)</u>
Net profit						<u>26,291</u>
Other segment information:						
Depreciation and amortisation .	9,627	1,474	779	165	—	12,045
Provision for impairment of inventories	3,300	5	575	—	—	3,880
Impairment of trade and other receivables	761	291	8	—	—	1,060

31 December 2014

	China CCMG	Hong Kong CCMG	Chinese healthcare products	Clinics	Elimination	Total
	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>	<i>HKD'000</i>
Segment revenue:						
Revenue to external customers	175,240	149,585	40,069	1,458	—	366,352
Intersegment sales	<u>81,628</u>	<u>3,058</u>	<u>7,242</u>	<u>—</u>	<u>(91,928)</u>	<u>—</u>
	<u>256,868</u>	<u>152,643</u>	<u>47,311</u>	<u>1,458</u>	<u>(91,928)</u>	<u>366,352</u>
Segment results	44,616	35,386	8,974	5	—	88,981
<i>Reconciliations:</i>						
Government grants						3,663
Interest income						714
Foreign exchange gain, net						780
Finance costs						(13,064)
Corporate and other unallocated expenses						<u>(38,744)</u>
Profit before tax						42,330
Income tax expense						<u>(7,823)</u>
Net profit						<u>34,507</u>
Other segment information:						
Depreciation and amortisation ..	10,802	1,680	836	345	—	13,663
Provision for impairment of inventories	2,199	30	221	—	—	2,450

Geographical information*(a) Revenue from external customers*

	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	161,542	168,065	191,029
Mainland China	<u>126,269</u>	<u>174,238</u>	<u>175,323</u>
	<u>287,811</u>	<u>342,303</u>	<u>366,352</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	8,238	7,513	12,059
Mainland China	<u>76,903</u>	<u>85,214</u>	<u>87,067</u>
	<u>85,141</u>	<u>92,727</u>	<u>99,126</u>

The non-current asset information above is based on the locations of assets and excludes available-for-sale investments and deferred tax assets.

Information about major customers

For the years ended 31 December 2012, 2013 and 2014, there was no single customer from which more than 10% of the Group's total revenue was derived.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and the value of services rendered.

An analysis of revenue, other income and gains is as follows:

	<u>Notes</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue				
Sales of CCMG and healthcare products		287,159	341,637	364,894
Rendering of Chinese medical consultation services		<u>652</u>	<u>666</u>	<u>1,458</u>
		<u>287,811</u>	<u>342,303</u>	<u>366,352</u>
Other income and gains				
Gain on disposal of subsidiaries.....	29	7,408	1,205	—
Government grants*	25	4,643	4,308	3,663
Gain from the sale of equipment and accessories .		1,585	1,205	429
Bank interest income		81	255	714
Foreign exchange gain, net		—	—	780
Others		<u>279</u>	<u>983</u>	<u>208</u>
		<u>13,996</u>	<u>7,956</u>	<u>5,794</u>

* Balance represented government grants from the relevant authorities in the PRC which consist primarily of subsidies and compensation for the Group's research and development costs and grants for improvement of the Group's research facilities in relation to certain research and development projects.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2012	2013	2014
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold		102,892	122,773	133,581
Cost of services provided.....		318	313	660
Depreciation	13	9,840	11,346	12,749
Amortisation of intangible assets	15	394	621	837
Research and development costs**		8,272	16,142	16,133
Minimum lease payments under operating leases:				
Office equipment		235	136	152
Land and buildings		4,384	5,904	8,114
		<u>4,619</u>	<u>6,040</u>	<u>8,266</u>
Amortisation of prepaid land lease payments	14	77	78	77
Auditors' remuneration		539	1,084	1,102
Listing expenses		—	1,777	5,751
Employee benefit expenses (excluding directors' remuneration (note 8)):				
Wages and salaries.....		51,416	62,356	58,174
Pension scheme contributions		7,445	9,125	8,212
		<u>58,861</u>	<u>71,481</u>	<u>66,386</u>
Foreign exchange loss/(gain), net.....		1,337*	266*	(780)*
Impairment of trade and other receivables.....		1,243	1,060	—
Write-down of inventories to net realisable value	17	2,330	3,880	2,450
(Gain)/loss on disposal of items of property, plant and equipment		<u>(112)</u>	<u>142</u>	<u>245</u>

* The foreign exchange loss and gain are included in "Other expenses" and "Other income and gains" in the consolidated statements of profit or loss, respectively.

** Included in the research and development costs, HK\$545,000, HK\$826,000 and HK\$1,005,000 are disclosed in the item of "depreciation" above and HK\$4,127,000, HK\$6,308,000 and HK\$5,751,000 are disclosed in the item of "employee benefit expenses" below for the year ended 31 December 2012, 2013 and 2014, respectively.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	10,757	12,939	13,064
Interest on loans from a director (note 33(b))	162	170	—
Interest on finance leases payable	<u>40</u>	<u>40</u>	<u>—</u>
	<u>10,959</u>	<u>13,149</u>	<u>13,064</u>

8. DIRECTOR'S AND CHIEF EXECUTIVE'S REMUNERATION

Director's and chief executive's remuneration, disclosed pursuant to the Listing Rules is as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	—	—	—
Other emoluments:			
Salaries, allowances and benefits in kind	5,006	6,206	8,795
Pension scheme contributions	<u>42</u>	<u>45</u>	<u>51</u>
	<u>5,048</u>	<u>6,251</u>	<u>8,846</u>

Executive directors and non-executive directors

	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2012			
Executive directors			
Abraham Chan	2,709	14	2,723
Viola, Man Yee Wai (“Viola Man”).....	996	14	1,010
Alvin, Tsoi Kam Biu (“Alvin Tsoi”).....	1,301	14	1,315
	<u>5,006</u>	<u>42</u>	<u>5,048</u>
Year ended 31 December 2013			
Executive directors			
Abraham Chan	3,473	15	3,488
Viola Man.....	1,151	15	1,166
Alvin Tsoi.....	1,582	15	1,597
	<u>6,206</u>	<u>45</u>	<u>6,251</u>
Year ended 31 December 2014			
Executive directors			
Abraham Chan	3,708	17	3,725
Viola Man.....	1,162	17	1,179
Alvin Tsoi.....	1,606	17	1,623
Leung Chin Man (“CM Leung”).....	2,319	—	2,319
	<u>8,795</u>	<u>51</u>	<u>8,846</u>
Non-executive director			
Eddie Chan Kin Man (“Eddie Chan”).....	<u>—</u>	<u>—</u>	<u>—</u>

There was no arrangement under which the executive directors waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods included 3, 3 and 4 directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 2, 2 and 1 non-directors of highest paid employees for the Relevant Periods are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	2,987	3,432	1,774
Pension scheme contributions.....	<u>28</u>	<u>30</u>	<u>17</u>
	<u><u>3,015</u></u>	<u><u>3,462</u></u>	<u><u>1,791</u></u>

The number of these non-directors and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	<u>Number of employees</u>		
	<u>2012</u>	<u>2013</u>	<u>2014</u>
HK\$1,000,001 to HK\$1,500,000.....	1	—	—
HK\$1,500,001 to HK\$2,000,000.....	<u>1</u>	<u>2</u>	<u>1</u>
	<u><u>2</u></u>	<u><u>2</u></u>	<u><u>1</u></u>

10. INCOME TAX

The Group is subject to income tax on an entity basis on profit arising in or derived from the countries/jurisdictions in which subsidiaries of the Group are domiciled and operate. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods. The statutory tax rate of the Group in respect of its operation in Mainland China is 25%. The Group's PRC subsidiary, Purapharm (Nanning) Pharmaceuticals Co., Limited ("PuraPharm Nanning") is qualified as High and New Technology Enterprise and was subject to a preferential income tax rate of 15% during the Relevant Periods. Besides, pursuant to the Guizhengfa [2008] No.61 and Guizhengbanfa [2013] No.104, PuraPharm Nanning was entitled to a further deduction of 40% of the income tax during the years ended 31 December 2012 and 2013. Pursuant to the rules and regulations of the Cayman Islands and BVI, the subsidiaries of the Group which incorporated in the Cayman Islands and BVI are not subject to any income tax. Taxes on profits

assessable elsewhere including Singapore, United States of America, Macau and Canada have been calculated at the rates of tax prevailing in the countries/jurisdictions in which subsidiaries of the Group are domiciled and operate.

	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	5,578	6,040	8,010
Deferred (note 26)	<u>333</u>	<u>(2,641)</u>	<u>(187)</u>
Total tax charge for the year	<u><u>5,911</u></u>	<u><u>3,399</u></u>	<u><u>7,823</u></u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries or jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

2012

	Mainland China		Hong Kong		Others		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit/(loss) before tax	<u>24,709</u>		<u>28,934</u>		<u>(3,590)</u>		<u>50,053</u>	
Tax at the statutory tax rates.....	6,177	25.0	4,776	16.5	(88)	2.5	10,865	21.7
Lower tax rate for specific province or enacted by local authority	(3,953)	(16.0)	—	—	—	—	(3,953)	(7.9)
Income not subject to tax.....	—	—	(1,222)	(4.2)	—	—	(1,222)	(2.4)
Expenses not deductible for tax .	95	0.4	38	0.1	—	—	133	0.3
Tax losses not recognised.....	—	—	—	—	88	(2.5)	88	0.2
Tax charge at the Group's effective rate	<u><u>2,319</u></u>	<u><u>9.4</u></u>	<u><u>3,592</u></u>	<u><u>12.4</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>5,911</u></u>	<u><u>11.9</u></u>

2013

	Mainland China		Hong Kong		Others		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit/(loss) before tax	<u>35,428</u>		<u>(115)</u>		<u>(5,623)</u>		<u>29,690</u>	
Tax at the statutory tax rates.....	8,857	25.0	(19)	16.5	(113)	2.0	8,725	29.4
Lower tax rate for specific province or enacted by local authority	(5,669)	(16.0)	—	—	—	—	(5,669)	(19.1)
Income not subject to tax.....	—	—	(199)	173.0	—	—	(199)	(0.7)
Expenses not deductible for tax .	229	0.6	200	(173.9)	—	—	429	1.4
Tax losses not recognised.....	—	—	—	—	113	(2.0)	113	0.4
Tax charge at the Group's effective rate	<u><u>3,417</u></u>	<u><u>9.6</u></u>	<u><u>(18)</u></u>	<u><u>15.6</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>3,399</u></u>	<u><u>11.4</u></u>

2014

	Mainland China		Hong Kong		Others		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>30,591</u>		<u>14,471</u>		<u>(2,732)</u>		<u>42,330</u>	
Tax at the statutory tax rates.....	7,647	25.0	2,388	16.5	(13)	0.5	10,022	23.6
Lower tax rate for specific province or enacted by local authority	(3,059)	(10.0)	—	—	—	—	(3,059)	(7.2)
Income not subject to tax	(303)	(1.0)	(43)	(0.3)	—	—	(346)	(0.8)
Expenses not deductible for tax .	187	0.6	914	6.3	—	—	1,101	2.6
Tax losses not recognised.....	—	—	92	0.6	13	(0.5)	105	0.2
Tax charge at the Group's effective rate	<u>4,472</u>	<u>14.6</u>	<u>3,351</u>	<u>23.1</u>	<u>—</u>	<u>—</u>	<u>7,823</u>	<u>18.5</u>

11. LOSS ATTRIBUTABLE TO OWNER OF THE PARENT

The consolidated profit attributable to owners of the parent for the Relevant Periods includes a loss of HK\$27,000, HK\$2,194,000 and HK\$7,018,000 for the years ended 31 December 2012, 2013 and 2014, respectively, which have been dealt with in the financial statements of the Company (note 28(b)).

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improve- ments	Machinery and equipment	Office equipment and furniture	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 December 2012							
At 1 January 2012							
Cost	17,681	4,519	56,708	12,589	2,446	10,127	104,070
Accumulated depreciation	<u>(2,861)</u>	<u>(1,380)</u>	<u>(19,029)</u>	<u>(7,391)</u>	<u>(766)</u>	<u>—</u>	<u>(31,427)</u>
Net carrying amount	<u>14,820</u>	<u>3,139</u>	<u>37,679</u>	<u>5,198</u>	<u>1,680</u>	<u>10,127</u>	<u>72,643</u>
At 1 January 2012, net of accumulated depreciation							
	14,820	3,139	37,679	5,198	1,680	10,127	72,643
Additions	536	374	5,584	1,591	4	1,188	9,277
Disposal	—	—	(1)	(19)	—	—	(20)
Disposal of subsidiaries (note 29)	—	—	—	(30)	—	—	(30)
Depreciation provided during the year	(443)	(806)	(6,483)	(1,648)	(460)	—	(9,840)
Transfers	1,202	—	7,283	—	—	(8,485)	—
Exchange realignment	<u>(52)</u>	<u>—</u>	<u>(114)</u>	<u>(8)</u>	<u>—</u>	<u>(29)</u>	<u>(203)</u>
At 31 December 2012, net of accumulated depreciation	<u>16,063</u>	<u>2,707</u>	<u>43,948</u>	<u>5,084</u>	<u>1,224</u>	<u>2,801</u>	<u>71,827</u>
At 31 December 2012							
Cost	19,357	4,893	69,386	13,638	2,449	2,801	112,524
Accumulated depreciation	<u>(3,294)</u>	<u>(2,186)</u>	<u>(25,438)</u>	<u>(8,554)</u>	<u>(1,225)</u>	<u>—</u>	<u>(40,697)</u>
Net carrying amount	<u>16,063</u>	<u>2,707</u>	<u>43,948</u>	<u>5,084</u>	<u>1,224</u>	<u>2,801</u>	<u>71,827</u>

	Buildings	Leasehold improve- ments	Machinery and equipment	Office equipment and furniture	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 December 2013							
At 31 December 2012 and at 1 January 2013							
Cost	19,357	4,893	69,386	13,638	2,449	2,801	112,524
Accumulated depreciation	(3,294)	(2,186)	(25,438)	(8,554)	(1,225)	—	(40,697)
Net carrying amount	<u>16,063</u>	<u>2,707</u>	<u>43,948</u>	<u>5,084</u>	<u>1,224</u>	<u>2,801</u>	<u>71,827</u>
At 1 January 2013, net of accumulated							
depreciation	16,063	2,707	43,948	5,084	1,224	2,801	71,827
Additions	6,758	—	7,306	1,369	674	3,148	19,255
Disposal	—	—	(215)	(58)	—	—	(273)
Disposal of a subsidiary (note 29)	—	—	—	(19)	—	—	(19)
Depreciation provided during the year	(495)	(868)	(7,770)	(1,753)	(460)	—	(11,346)
Transfers	324	—	3,188	—	—	(3,512)	—
Exchange realignment	336	—	827	53	5	29	1,250
At 31 December 2013, net of accumulated							
depreciation	<u>22,986</u>	<u>1,839</u>	<u>47,284</u>	<u>4,676</u>	<u>1,443</u>	<u>2,466</u>	<u>80,694</u>
At 31 December 2013							
Cost	26,852	4,893	80,421	14,854	3,128	2,466	132,614
Accumulated depreciation	(3,866)	(3,054)	(33,137)	(10,178)	(1,685)	—	(51,920)
Net carrying amount	<u>22,986</u>	<u>1,839</u>	<u>47,284</u>	<u>4,676</u>	<u>1,443</u>	<u>2,466</u>	<u>80,694</u>

	Buildings	Leasehold improve- ments	Machinery and equipment	Office equipment and furniture	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 December 2014							
At 31 December 2013 and at 1 January 2014							
Cost	26,852	4,893	80,421	14,854	3,128	2,466	132,614
Accumulated depreciation	(3,866)	(3,054)	(33,137)	(10,178)	(1,685)	—	(51,920)
Net carrying amount	<u>22,986</u>	<u>1,839</u>	<u>47,284</u>	<u>4,676</u>	<u>1,443</u>	<u>2,466</u>	<u>80,694</u>
Cost at 1 January 2014, net of accumulated							
depreciation	22,986	1,839	47,284	4,676	1,443	2,466	80,694
Additions	895	1,711	4,535	395	713	3,254	11,503
Disposal	—	—	(563)	(9)	(120)	(11)	(703)
Depreciation provided during the year.....	(692)	(1,009)	(8,653)	(1,869)	(526)	—	(12,749)
Transfers	1,208	—	1,636	—	—	(2,844)	—
Exchange realignment	(329)	—	(615)	(46)	(12)	(14)	(1,016)
At 31 December 2014	<u>24,068</u>	<u>2,541</u>	<u>43,624</u>	<u>3,147</u>	<u>1,498</u>	<u>2,851</u>	<u>77,729</u>
At 31 December 2014							
Cost	28,566	6,605	81,623	15,074	3,027	2,851	137,746
Accumulated depreciation	(4,498)	(4,064)	(37,999)	(11,927)	(1,529)	—	(60,017)
Net carrying amount	<u>24,068</u>	<u>2,541</u>	<u>43,624</u>	<u>3,147</u>	<u>1,498</u>	<u>2,851</u>	<u>77,729</u>

Certain of the Group's buildings, machinery and equipment, office equipment and construction in progress with aggregate net carrying amounts of approximately HK\$52,243,000, HK\$52,093,000 and HK\$54,335,000 as at 31 December 2012, 2013 and 2014, respectively, were pledged to secure bank loans granted to the Group (note 23).

The Group held motor vehicles under finance leases with a net carrying amount of approximately HK\$1,002,000 as at 31 December 2012 (note 24).

14. PREPAID LAND LEASE PAYMENTS

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount at 1 January	3,132	3,045	3,030
Amortised during the year.....	(77)	(78)	(77)
Exchange realignment	<u>(10)</u>	<u>63</u>	<u>(44)</u>
Carrying amount at 31 December	3,045	3,030	2,909
Current portion included in prepayments, deposits and other receivables.....	<u>(77)</u>	<u>(78)</u>	<u>(77)</u>
Non-current portion	<u><u>2,968</u></u>	<u><u>2,952</u></u>	<u><u>2,832</u></u>

The leasehold land is situated in Mainland China and is held under a long term lease.

The leasehold land was pledged to secure bank loans granted to the Group as at 31 December 2012, 2013 and 2014 (note 23).

15. INTANGIBLE ASSETS

	<u>Trademarks</u>	<u>Patents</u>	<u>Licences</u>	<u>Software</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 December 2012					
At 1 January 2012					
Cost.....	4,302	100	1,281	110	5,793
Accumulated amortisation.....	<u>(1,681)</u>	<u>(18)</u>	<u>(1,201)</u>	<u>(4)</u>	<u>(2,904)</u>
Net carrying amount	<u><u>2,621</u></u>	<u><u>82</u></u>	<u><u>80</u></u>	<u><u>106</u></u>	<u><u>2,889</u></u>
Cost at 1 January 2012, net of accumulated amortisation.....					
	2,621	82	80	106	2,889
Additions	1,047	199	—	468	1,714
Amortisation provided during the year	<u>(235)</u>	<u>(38)</u>	<u>(80)</u>	<u>(41)</u>	<u>(394)</u>
At 31 December 2012	<u><u>3,433</u></u>	<u><u>243</u></u>	<u><u>—</u></u>	<u><u>533</u></u>	<u><u>4,209</u></u>
At 31 December 2012					
Cost.....	5,349	299	1,281	578	7,507
Accumulated amortisation.....	<u>(1,916)</u>	<u>(56)</u>	<u>(1,281)</u>	<u>(45)</u>	<u>(3,298)</u>
Net carrying amount	<u><u>3,433</u></u>	<u><u>243</u></u>	<u><u>—</u></u>	<u><u>533</u></u>	<u><u>4,209</u></u>

	<u>Trademarks</u>	<u>Patents</u>	<u>Licences</u>	<u>Software</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 December 2013					
At 31 December 2012 and at 1 January 2013					
Cost.....	5,349	299	1,281	578	7,507
Accumulated amortisation.....	<u>(1,916)</u>	<u>(56)</u>	<u>(1,281)</u>	<u>(45)</u>	<u>(3,298)</u>
Net carrying amount.....	<u>3,433</u>	<u>243</u>	<u>—</u>	<u>533</u>	<u>4,209</u>
Cost at 1 January 2013 net of accumulated amortisation.....					
	3,433	243	—	533	4,209
Additions.....	1,535	50	—	36	1,621
Amortisation provided during the year.....					
	(411)	(45)	—	(165)	(621)
Exchange realignment.....	<u>2</u>	<u>—</u>	<u>—</u>	<u>11</u>	<u>13</u>
At 31 December 2013.....	<u>4,559</u>	<u>248</u>	<u>—</u>	<u>415</u>	<u>5,222</u>
At 31 December 2013					
Cost.....	6,884	349	1,281	613	9,127
Accumulated amortisation.....	<u>(2,325)</u>	<u>(101)</u>	<u>(1,281)</u>	<u>(198)</u>	<u>(3,905)</u>
Net carrying amount.....	<u>4,559</u>	<u>248</u>	<u>—</u>	<u>415</u>	<u>5,222</u>
31 December 2014					
At 31 December 2013 and at 1 January 2014					
Cost.....	6,884	349	1,281	613	9,127
Accumulated amortisation.....	<u>(2,325)</u>	<u>(101)</u>	<u>(1,281)</u>	<u>(198)</u>	<u>(3,905)</u>
Net carrying amount.....	<u>4,559</u>	<u>248</u>	<u>—</u>	<u>415</u>	<u>5,222</u>
Cost at 1 January 2014 net of accumulated amortisation.....					
	4,559	248	—	415	5,222
Additions.....	2,005	6	—	746	2,757
Amortisation provided during the year.....					
	(511)	(59)	—	(267)	(837)
Exchange realignment.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8)</u>	<u>(8)</u>
At 31 December 2014.....	<u>6,053</u>	<u>195</u>	<u>—</u>	<u>886</u>	<u>7,134</u>
At 31 December 2014					
Cost.....	8,892	354	1,281	1,366	11,893
Accumulated amortisation.....	<u>(2,839)</u>	<u>(159)</u>	<u>(1,281)</u>	<u>(480)</u>	<u>(4,759)</u>
Net carrying amount.....	<u>6,053</u>	<u>195</u>	<u>—</u>	<u>886</u>	<u>7,134</u>

16. AVAILABLE-FOR-SALE INVESTMENTS

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Life insurance policies, at fair value	<u>9,962</u>	<u>10,234</u>	<u>10,531</u>

The Group entered into two life insurance policies with an insurance company to insure an executive director. Under these policies, the Group is the beneficiary and the policy holder. The Group paid upfront premiums for these policies and may surrender any time by filing a written request and receive cash based on the surrender value of the policy at the date of withdrawal, which is calculated by the insurer. In the opinion of the Directors, the surrender values of the policies provided by the insurance company are the best approximation of their fair values, which are categorised within Level 3 of the fair value hierarchy.

The changes in fair value of the Group's available-for-sale investments, net of tax, recognised in other comprehensive income amounted to HK\$169,000, HK\$228,000 and HK\$248,000 in 2012, 2013 and 2014, respectively.

As at 31 December 2012, 2013 and 2014, the Group's available-for-sale investments were pledged as security for the loans granted to the Group (note 23).

17. INVENTORIES

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	20,718	15,483	22,304
Work in progress.....	17,127	18,165	21,355
Finished goods.....	<u>40,958</u>	<u>35,982</u>	<u>49,982</u>
	78,803	69,630	93,641
Less: provision	<u>(1,860)</u>	<u>(4,416)</u>	<u>(3,748)</u>
	<u>76,943</u>	<u>65,214</u>	<u>89,893</u>

The write-down of inventories recognised at cost of sales amounted to HK\$2,330,000, HK\$3,880,000 and HK\$2,450,000 for the years ended 31 December 2012, 2013 and 2014, respectively.

The Group's inventories with carrying amounts of HK\$51,972,000, HK\$38,067,000 and HK\$37,515,000 as at 31 December 2012, 2013 and 2014, respectively, were pledged as security for the loans granted to the Group (note 23).

18. TRADE AND BILLS RECEIVABLES

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	68,904	99,260	98,766
Bills receivable	—	—	4,670
Less: impairment of trade receivables	68,904	99,260	103,436
	<u>(1,578)</u>	<u>(516)</u>	<u>(338)</u>
	<u>67,326</u>	<u>98,744</u>	<u>103,098</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally one to six months, extending up to a longer period for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has credit control policy to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	41,847	57,887	52,419
1 to 3 months	12,346	15,787	21,030
3 to 6 months	7,211	10,228	11,554
Over 6 months	5,922	14,842	18,095
	<u>67,326</u>	<u>98,744</u>	<u>103,098</u>

The movements in provision for impairment of trade receivables are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	336	1,578	516
Impairment losses recognised	1,243	464	—
Amounts written off as uncollectible	—	(1,560)	(176)
Exchange realignment	(1)	34	(2)
	<u>1,578</u>	<u>516</u>	<u>338</u>

Included in the above provision for impairment of trade receivables is provision for individually impaired trade receivables of HK\$1,578,000, HK\$516,000 and HK\$338,000 with carrying amounts before provision of HK\$1,578,000, HK\$516,000 and HK\$338,000 at 31 December 2012, 2013 and 2014, respectively.

The individually impaired trade receivables related to customers that were in default in principal payments.

The ageing analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired.....	50,091	63,501	67,128
Less than 1 month past due.....	6,439	15,516	11,342
1 to 2 months past due.....	3,492	2,815	3,088
2 to 3 months past due.....	912	1,884	2,220
Over 3 months past due	<u>6,392</u>	<u>15,028</u>	<u>19,320</u>
	<u>67,326</u>	<u>98,744</u>	<u>103,098</u>

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment 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. The Group does not hold any collateral or other credit enhancements over these balances.

Trade receivables amounting to HK\$21,152,000, HK\$48,921,000 and HK\$14,243,000 at 31 December 2012, 2013 and 2014, respectively, were pledged as security for the Group's bank loans (note 23).

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments	12,616	11,454	36,275
Receivables from third party agents	3,113	2,519	3,035
Deposits and other receivables	6,928	5,193	5,562
	<u>22,657</u>	<u>19,166</u>	<u>44,872</u>
Less: impairment of other receivables	(255)	(260)	(257)
	<u>22,402</u>	<u>18,906</u>	<u>44,615</u>
Portion classified as non-current	(6,137)	(3,859)	(11,431)
Current portion	<u>16,265</u>	<u>15,047</u>	<u>33,184</u>

Company

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments.....	<u>25</u>	<u>617</u>	<u>25</u>

The movements in provision for impairment of other receivables are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	256	255	260
Impairment losses recognised.....	—	596	—
Amounts written off as uncollectible.....	—	(596)	—
Exchange realignment	(1)	5	(3)
	<u>255</u>	<u>260</u>	<u>257</u>

Included in the above provision for impairment of other receivables is provision for individually impaired other receivable of HK\$255,000, HK\$260,000 and HK\$257,000 with carrying amounts before provision of HK\$255,000, HK\$260,000 and HK\$257,000 as at 31 December 2012, 2013 and 2014, respectively. The Group does not hold any collateral or other credit enhancements over these balances.

20. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS**Group**

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	36,839	32,852	46,736
Time deposits.....	—	15,861	20,633
	36,839	48,713	67,369
Less: pledged time deposits for bank loans (note 23)	—	(15,861)	(20,633)
Cash and cash equivalents.....	<u>36,839</u>	<u>32,852</u>	<u>46,736</u>
Denominated in RMB	35,743	23,477	16,691
Denominated in HK\$	1,096	9,375	30,045
Cash and cash equivalents.....	<u>36,839</u>	<u>32,852</u>	<u>46,736</u>

The Renminbi (“RMB”) is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits earn interest at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

Group

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month.....	20,231	26,300	20,614
1 to 2 months	19,918	2,393	12,710
2 to 3 months	6,657	130	5,500
Over 3 months	1,977	1,050	5,722
	<u>48,783</u>	<u>29,873</u>	<u>44,546</u>

The trade payables are interest-free and are normally settled on terms of one to three months, extending to longer periods for those long standing suppliers.

22. OTHER PAYABLES AND ACCRUALS

Group

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables	26,300	29,581	19,930
Accruals	8,194	6,817	16,244
Advance from customers	<u>4,805</u>	<u>2,284</u>	<u>1,514</u>
	<u>39,299</u>	<u>38,682</u>	<u>37,688</u>

Company

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals	<u>—</u>	<u>300</u>	<u>972</u>

Other payable and accruals are interest-free and normally settled on terms of one to three months.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<u>2012</u>		
	Effective interest rate (%)	Maturity	<i>HK\$'000</i>
Current			
Finance lease payables (note 24).....	2.75 - 3.75	2013	486
Bank overdrafts — secured (b)	5.25 - 6.00	On demand	19,969
Bank loans - secured	2.10 - 10.64	On demand	<u>159,384</u>
			<u>179,839</u>

	2013		
	Effective interest rate (%)	Maturity	HK\$'000
Current			
Bank overdrafts — secured (b)	5.25 - 6.00	On demand	7,813
Bank loans — secured	2.21 - 9.84	On demand	167,053
Bank loans — unsecured.....	4.51 - 4.52	On demand	2,780
Current portion of long term bank loans — secured	2.21 - 2.28	2014	5,697
			<u>183,343</u>
Non-current			
Long term bank loans — secured	2.21 - 6.77	2015	4,847
Total			<u>188,190</u>

	2014		
	Effective interest rate (%)	Maturity	HK\$'000
Current			
Bank overdrafts — secured (b)	4.75 - 6.00	On demand	16,061
Bank loans — secured	2.20 - 9.84	On demand/ 2015	166,631
			<u>182,692</u>

Analysed into:

	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans and overdrafts repayable:			
Within one year or on demand.....	179,353	183,343	182,692
In the second year	—	4,847	—
	179,353	188,190	182,692
Finance leases repayable:			
Within one year	486	—	—
	<u>179,839</u>	<u>188,190</u>	<u>182,692</u>

Interest-bearing bank and other borrowings are denominated in:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$.....	91,489	85,194	78,788
JPY.....	815	—	—
RMB.....	87,535	102,996	94,928
US\$.....	—	—	8,976
	<u>179,839</u>	<u>188,190</u>	<u>182,692</u>

- (a) HK Interpretation 5 “Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause” requires that a loan which includes a clause that gives the lender the unconditional right to call the loan at any time (“repayment on demand clause”) shall be classified in total by the borrower as current in the consolidated statements of financial position. Interest bearing bank loans of the Group in the amount of HK\$179,353,000, HK\$177,646,000 and HK\$178,321,000 include a repayment on demand clause under the relevant loan agreements, among which a balance of HK\$27,085,000, HK\$40,453,000, and HK\$5,762,000 that are repayable after one year from the end of the Relevant Periods have been classified as a current liability. For the purpose of the above analysis, such loans are included within current secured bank loans and analysed into bank loans repayable within one year.
- (b) The Group’s overdraft facilities amounted to HK\$24,490,000, HK\$34,890,000 and HK\$34,890,000 as at 31 December 2012, 2013 and 2014, of which HK\$19,969,000, HK\$7,813,000 and HK\$16,061,000 had been utilised, respectively.
- (c) The Group’s bank facilities amounting to HK\$204,295,000, HK\$249,000,000 and HK\$243,270,000 of which HK\$179,353,000, HK\$188,190,000 and HK\$182,692,000 had been utilised as at 31 December 2012, 2013 and 2014, respectively.
- (d) Certain of the Group’s bank loans are secured by:
- (i) the Group’s buildings, machinery and equipment, office equipment and furniture and construction in progress with an aggregate net carrying amounts of approximately HK\$52,243,000, HK\$52,093,000 and HK\$54,335,000 as at 31 December 2012, 2013 and 2014, respectively (note 13);
 - (ii) the Group’s leasehold land of HK\$3,045,000, HK\$3,030,000 and HK\$2,909,000 as at 31 December 2012, 2013 and 2014, respectively (note 14);
 - (iii) life insurance policies of the Group of HK\$9,962,000, HK\$10,234,000 and HK\$10,531,000 as at 31 December 2012, 2013 and 2014, respectively (note 16);

- (iv) the Group's inventories with aggregate carrying amounts of HK\$51,972,000, HK\$38,067,000 and HK\$37,515,000 as at 31 December 2012, 2013 and 2014, respectively (note 17);
- (v) certain of the Group's trade receivables of HK\$21,152,000, HK\$48,921,000 and HK\$14,243,000 as at 31 December 2012, 2013 and 2014, respectively (note 18);
- (vi) the Group's time deposits amounting to nil, HK\$15,861,000 and HK\$20,633,000 as at 31 December 2012, 2013 and 2014 (note 20);
- (vii) properties owned by a related company of the Group, which is controlled by Mr. Abraham Chan, a director of the Company (note 33(d));
- (viii) personal guarantees executed by Mr. Abraham Chan, Mr. Alvin Tsoi and Ms. Viola Man, the directors of the Company (note 33(d));
- (ix) corporate guarantees executed by related companies of the Group, which are controlled by Mr. Abraham Chan, a director of the Company (note 33(d)); and
- (x) a guarantee executed by the Government of Hong Kong Special Administrative Region under Special Loan Guarantee Scheme.

24. FINANCE LEASE PAYABLES

The Group leased certain of its motor vehicles. These leases were classified as finance leases and have been fully repaid in 2013.

Group	Minimum lease payments	Present value of minimum lease payments
	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable:		
Within one year	526	486
Total minimum finance lease payments	526	486
Future finance charges	(40)	
Total net finance lease payables (note 23).....	<u>486</u>	

25. GOVERNMENT GRANTS

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	4,466	3,546	3,361
Government grants received during the year.....	3,737	4,059	3,766
Amounts released to the consolidated statements of profit or loss (note 5)	(4,643)	(4,308)	(3,663)
Exchange realignment	<u>(14)</u>	<u>64</u>	<u>(51)</u>
At 31 December.....	3,546	3,361	3,413
Portion classified as current liabilities	<u>(899)</u>	<u>(1,649)</u>	<u>(1,504)</u>
Non-current portion	<u>2,647</u>	<u>1,712</u>	<u>1,909</u>

26. DEFERRED TAX

Deferred tax assets

	<u>Available- for-sale investment revaluation</u>	<u>Tax loss available for offsetting against future taxable profits</u>	<u>Government grants</u>	<u>Unrealised profit on inventories</u>	<u>Provisions for receivables and inventories</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2012	96	1,253	402	1,442	231	3,424
Deferred tax credited/(charged) to the consolidated statements of profit or loss during the year (note 10)	—	(162)	(82)	(399)	351	(292)
Deferred tax charged to other comprehensive income during the year.....	(34)	—	—	—	—	(34)
Exchange realignment	<u>—</u>	<u>—</u>	<u>(1)</u>	<u>—</u>	<u>—</u>	<u>(1)</u>
Gross deferred tax assets at 31 December 2012	<u>62</u>	<u>1,091</u>	<u>319</u>	<u>1,043</u>	<u>582</u>	<u>3,097</u>

	Available- for-sale investment revaluation	Tax loss available for offsetting against future taxable profits	Government grants	Unrealised profit on inventories	Provisions for receivables and inventories	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2013	62	1,091	319	1,043	582	3,097
Deferred tax credited/(charged) to the consolidated statements of profit or loss during the year (note 10)	—	2,538	(25)	(142)	291	2,662
Deferred tax charged to other comprehensive income during the year	(44)	—	—	—	—	(44)
Exchange realignment	—	—	9	—	13	22
Gross deferred tax assets at 31 December 2013	<u>18</u>	<u>3,629</u>	<u>303</u>	<u>901</u>	<u>886</u>	<u>5,737</u>
At 1 January 2014	18	3,629	303	901	886	5,737
Deferred tax credited/(charged) to the consolidated statements of profit or loss during the year (note 10)	—	43	213	187	(3)	440
Deferred tax charged to other comprehensive income during the year	(49)	—	—	—	—	(49)
Exchange realignment	—	—	(4)	—	(36)	(40)
Gross deferred tax assets at 31 December 2014	<u>(31)</u>	<u>3,672</u>	<u>512</u>	<u>1,088</u>	<u>847</u>	<u>6,088</u>

Deferred tax liabilities

	Depreciation and amortisation allowance in excess of related depreciation and amortisation		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	745	786	801
Deferred tax charged to the consolidated statements of profit or loss during the year (note 10).....	41	21	253
Disposal of a subsidiary (note 29).....	—	(6)	—
Gross deferred tax liabilities at 31 December.....	<u>786</u>	<u>801</u>	<u>1,054</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statements of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net deferred tax assets recognised in the consolidated statements of financial position	2,333	4,936	5,047
Net deferred tax liabilities recognised in the consolidated statements of financial position	<u>(22)</u>	<u>—</u>	<u>(13)</u>
	<u>2,311</u>	<u>4,936</u>	<u>5,034</u>

Pursuant to the Corporate Income Tax Law of the People's Republic of China, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earning after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

At the end of each of the Relevant Periods, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in Mainland China. In the opinion of the Directors, based on the Group's future expansion plan in Mainland China and the cash flow generated in Hong Kong at the end of each of the Relevant Periods, it is not probable that the subsidiary will distribute such earnings in the foreseeable future. The amounts of temporary difference associated with investments in the subsidiary in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK\$46,871,000, HK\$73,085,000 and HK\$96,316,000 as at 31 December 2012, 2013 and 2014, respectively.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. SHARE CAPITAL

As at 31 December 2014, the Company had authorised share capital of US\$10,000,000 (2012: US\$50,000, 2013: US\$50,000) divided into 10,000,000 ordinary shares (2012: 50,000, 2013: 50,000) with a par value of US\$1.00 each. As at 31 December 2014, 3,870,968 ordinary shares were issued and fully paid up.

Movements of the issued share capital of the Company are as follows:

	Number of shares in issue	Share capital
		<i>HK\$</i>
Upon incorporation and at 31 December 2012, 31 December 2013 and 1 January 2014	1	8
Ordinary shares issued and fully paid	<u>3,870,967</u>	<u>30,000,000</u>
At 31 December 2014	<u><u>3,870,968</u></u>	<u><u>30,000,008</u></u>

28. RESERVES

(a) Group

Surplus reserves

Pursuant to the relevant laws and regulations in the PRC, the company now comprising the Group which is registered in the PRC shall appropriate a certain percentage of its net profit after tax (after offsetting any prior years' losses) calculated under the accounting principles generally applicable to the PRC enterprises to reserve funds. When the balance of this reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must

be maintained at a minimum of 25% of the capital after these usages. After making the appropriation to the statutory surplus reserve, the company may also appropriate its profit for the year to the discretionary surplus reserve upon approval by the board of directors or the shareholders in general meeting.

Capital reserve

Capital reserve represented additional contributions made by the shareholders of the Company's subsidiaries and, in the case of an acquisition of additional non-controlling interest of a subsidiary, the difference between the cost of acquisition and the non-controlling interest acquired.

Merger reserve

The merger reserve represented the difference between the Company's shares of the nominal value of the paid-up capital of the subsidiaries acquired and the Company's cost of acquisition of the subsidiaries under common control upon the Reorganisation as detailed in note 1 above.

(b) Company

	Accumulated losses
	<u>HK\$'000</u>
At 1 January 2012	—
Loss and total comprehensive income for the year	<u>(27)</u>
At 31 December 2012 and 1 January 2013	(27)
Loss and total comprehensive income for the year	<u>(2,194)</u>
At 31 December 2013 and 1 January 2014	(2,221)
Loss and total comprehensive income for the year	<u>(7,018)</u>
At 31 December 2014	<u><u>(9,239)</u></u>

29. DISPOSAL OF SUBSIDIARIES

	<u>2012</u>	<u>2013</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment.....	30	19
Trade receivables.....	567	—
Inventories.....	1,605	—
Prepayments and other receivables.....	157	—
Due to the intermediate holding company	(822)	—
Due to fellow subsidiaries	(8,542)	(1,724)
Due to the immediate holding company	—	507
Accruals and other payables	(93)	—
Deferred tax liabilities.....	—	(6)
	<u>(7,098)</u>	<u>(1,204)</u>
Gain on disposal of subsidiaries (note 5)	<u>7,408</u>	<u>1,205</u>
Satisfied by:		
Offsetting the amounts due to a director	<u>310</u>	<u>1</u>

During the years 2012 and 2013, seven subsidiaries and one subsidiary were/was disposed of to Gold Sparkle Limited, a related party controlled by a director of the Group, respectively.

30. PLEDGE OF ASSETS

Details of the Group's assets pledged for the bank loans and overdrafts are included in note 23 to the Financial Information.

31. OPERATING LEASE ARRANGEMENTS**As lessee**

The Group leases certain of its warehouses, office buildings and office equipment under operating lease arrangements. Leases for warehouses, office buildings and office equipment are negotiated for terms ranging from one to five years.

At 31 December 2012, 2013 and 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	5,271	5,778	8,854
In the second to fifth years, inclusive	<u>6,095</u>	<u>4,831</u>	<u>3,397</u>
	<u><u>11,366</u></u>	<u><u>10,609</u></u>	<u><u>12,251</u></u>

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following capital commitments at the end of each of the Relevant Periods:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:			
Lands and buildings.....	1,518	147	69,608
Machinery and equipment.....	1,175	592	888
Intangible assets	<u>—</u>	<u>180</u>	<u>—</u>
	<u><u>2,693</u></u>	<u><u>919</u></u>	<u><u>70,496</u></u>

33. RELATED PARTY TRANSACTIONS**Group**

In addition to the transactions detailed elsewhere in the Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

(a) Names of the Group's principal related parties and their relationship with the Group

Name of related parties	Relationship
Abraham Chan	Director of the Company
Viola Man	Director of the Company
Alvin Tsoi	Director of the Company
CM Leung	Director of the Company
Fullgold Development Limited	Ultimate holding company
Purapharm Corporation Limited	Immediate holding company
Joint Partners Investments Limited	Company controlled by directors
Golden Gain International Limited	Company wholly owned by a director
Purapharm Company Limited	Company wholly owned by a director
Petzup Laboratories Limited [#]	Company wholly owned by a director
Purapharm Marketing Service Limited [#]	Company wholly owned by a director
Nong's Chinese Medicine Clinic Services Limited [#]	Company wholly owned by a director
Southern Concept International Limited	Company wholly owned by a director
Gold Sparkle Limited	Company wholly owned by a director
Purapharm China Holdings Limited [#]	Company wholly owned by a director
HerbMiners Holding's Limited	Company wholly owned by a director
Nong's Chinese Medicine Clinic Limited [#]	Company wholly owned by a director
Golden Gain Development Limited	Company wholly owned by a director
HerbMiners Informatics Limited	Company wholly owned by a director
Edtoma Secretarial Services Limited	Company significantly influenced by a director
CWCC Co. Limited	Company significantly influenced by a director
Gateway (Macao Commercial Offshore) Company Limited ...	Company significantly influenced by a director

[#] The companies, which were former subsidiaries of the Group, became related parties since the Group disposed of them to Gold Sparkle Limited, a company controlled by a director of the Company, in 2012 and 2013.

(b) Significant related party transactions during the Relevant Periods are as follows:

		<u>2012</u>	<u>2013</u>	<u>2014</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses.....	(i)	162	170	—
Rental expenses	(ii)	1,440	1,440	1,440
Management fee income.....	(iii)	—	201	—
Software license fee and IT service fee.....	(iv)	569	421	413
Gain on disposal of subsidiaries.....	(v)	7,408	1,205	—
Professional services fees.....	(vi)	<u>365</u>	<u>272</u>	<u>615</u>

Notes:

- (i) The interest expenses were paid for loans from a director based on the base rate of the Hongkong and Shanghai Banking Corporation (“HSBC”) plus 0.25% per annum as stated in the loan agreements.
- (ii) The rental expenses were paid to Golden Gain International Limited, a related company controlled by Mr. Abraham Chan, under prices mutually agreed by both parties.
- (iii) The management fee was received from Petzup Laboratories Limited, a related company controlled by Mr. Abraham Chan, based on allocation of operation expenses of the Group with reference to the time costs incurred.
- (iv) The software license fee and IT service fee were paid to HerbMiners Informatics Limited, a related company controlled by Mr. Abraham Chan, under a price mutually agreed by both parties.
- (v) The subsidiaries were disposed of to Gold Sparkle Limited, a related company controlled by Mr. Abraham Chan, under prices mutually agreed by both parties (note 29).
- (vi) The professional service fees were paid to the related companies, over which Mr. Eddie Chan, our non-executive director, has significant influence, under a price mutually agreed by both parties.

(c) Outstanding balances with related parties:

- (i) The Group’s amounts due from a director were as below:

	<u>2012</u>		<u>2013</u>		<u>2014</u>	
	<u>Maximum</u>		<u>Maximum</u>		<u>Maximum</u>	
	<u>amount</u>		<u>amount</u>		<u>amount</u>	
	<u>outstanding</u>		<u>outstanding</u>		<u>outstanding</u>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Abraham Chan.....	<u>15,931</u>	<u>15,931</u>	<u>12,256</u>	<u>15,931</u>	<u>11,822</u>	<u>14,671</u>

The above balances were unsecured, interest-free and payable on demand and will be subsequently settled before listing.

(ii) The Group's amounts due from the ultimate holding company are as below:

	<u>2012</u>		<u>2013</u>		<u>2014</u>	
	Maximum amount outstanding		Maximum amount outstanding		Maximum amount outstanding	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fullgold Development Limited...	<u>56</u>	<u>56</u>	<u>—</u>	<u>56</u>	<u>—</u>	<u>—</u>

The above balances were unsecured, interest-free and payable on demand.

(iii) The Group's loans from a director are as below:

	<u>2012</u>		<u>2013</u>		<u>2014</u>	
	Maximum amount outstanding		Maximum amount outstanding		Maximum amount outstanding	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Abraham Chan	<u>3,134</u>	<u>3,134</u>	<u>—</u>	<u>3,134</u>	<u>—</u>	<u>—</u>

Loans from a director bear interest of the base rate of HSBC plus 0.25% per annum and are payable on demand.

(iv) The Group's amount due to the immediate holding company was unsecured, interest-free and payable on demand and will be subsequently settled before listing.

(v) Details of the Group's amounts due from/to related companies are as follows:

Amounts due from related companies:

Name	2012		2013		2014	
	Maximum amount outstanding		Maximum amount outstanding		Maximum amount outstanding	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Purapharm Company Limited	6,475	6,475	—	6,475	—	—
Golden Gain International Limited	5,669	5,669	240	5,669	240	240
Petzup Laboratories Limited	2,954	2,954	—	2,954	—	—
Purapharm Marketing Service Limited	2,833	2,833	—	2,833	—	—
Nong's Chinese Medicine Clinic Services Limited	2,329	2,329	—	2,329	—	—
Southern Concept International Limited	1,078	1,078	—	1,078	—	—
Gold Sparkle Limited	361	361	—	361	—	—
Purapharm China Holdings Limited	316	316	—	316	—	—
HerbMiners Holding's Limited	278	278	—	278	—	—
Nong's Chinese Medicine Clinic Limited	171	171	—	171	—	—
Golden Gain Development Limited	43	43	—	43	—	—
Others	199	199	—	199	—	—
Total	22,706	22,706	240	22,706	240	240

Amounts due to related companies:

Name	2012	2013	2014
	HK\$'000	HK\$'000	HK\$'000
Petzup Laboratories Limited	—	306	—
HerbMiners Informatics Limited	68	110	—
	68	416	—

The Group's amounts due from/to related companies are unsecured, interest-free and payable on demand and will be subsequently settled before listing.

(d) Provision of guarantees by related parties

	<u>2012</u>	<u>2013</u>	<u>2014</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans guaranteed by:			
Mr. Abraham Chan, Ms. Viola Man, Joint Partners Investments Limited, Golden Gain International Limited and PP BVI.....	64,972	55,941	—
Mr. Abraham Chan, Ms. Viola Man, Mr. Alvin Tsoi and PP BVI.....	11,635	14,639	—
Mr. Abraham Chan, Ms. Viola Man, and PP BVI.....	—	—	79,503
Mr. Abraham Chan and PP BVI.....	15,211	11,808	8,260
Mr. Abraham Chan	<u>61,420</u>	<u>102,324</u>	<u>94,894</u>
	<u>153,238</u>	<u>184,712</u>	<u>182,657</u>

The above guarantees provided by the Directors/related parties will be subsequently released upon listing.

Company

The Company's amounts due from the immediate holding company, amounts due from subsidiaries, and amounts due to subsidiaries were unsecured, interest-free and due on demand.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the Relevant Periods are as follows:

2012

Financial assets

	Loans and receivables	Available- for-sale financial assets	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale investments.....	—	9,962	9,962
Trade receivables	67,326	—	67,326
Financial assets included in prepayments, deposits and other receivables.....	9,786	—	9,786
Due from a director	15,931	—	15,931
Due from the ultimate holding company.....	56	—	56
Due from related parties	22,706	—	22,706
Cash and cash equivalents.....	36,839	—	36,839
	<u>152,644</u>	<u>9,962</u>	<u>162,606</u>

Financial liabilities

	Financial liabilities at amortised cost
	<i>HK\$'000</i>
Trade payables	48,783
Financial liabilities included in other payables and accruals.....	20,794
Interest-bearing bank and other borrowings.....	179,839
Loans from a director	3,134
Due to the immediate holding company	11,929
Due to related parties.....	68
	<u>264,547</u>

2013

Financial assets

	Loans and receivables	Available- for-sale financial assets	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale investments.....	—	10,234	10,234
Trade receivables.....	98,744	—	98,744
Financial assets included in prepayments, deposits and other receivables.....	7,452	—	7,452
Due from a director.....	12,256	—	12,256
Due from related parties.....	240	—	240
Cash and cash equivalents.....	32,852	—	32,852
Pledged bank deposits.....	15,861	—	15,861
	<u>167,405</u>	<u>10,234</u>	<u>177,639</u>

Financial liabilities

	Financial liabilities at amortised cost
	<i>HK\$'000</i>
Trade payables.....	29,873
Financial liabilities included in other payables and accruals.....	18,504
Interest-bearing bank and other borrowings.....	188,190
Due to the immediate holding company.....	12,436
Due to related companies.....	416
	<u>249,419</u>

2014

Financial assets

	Loans and receivables	Available- for-sale financial assets	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale investments.....	—	10,531	10,531
Trade and bills receivables.....	103,098	—	103,098
Financial assets included in prepayments, deposits and other receivables.....	8,340	—	8,340
Due from a director	11,822	—	11,822
Due from related company	240	—	240
Cash and cash equivalents.....	46,736	—	46,736
Pledged bank deposits.....	20,633	—	20,633
	<u>190,869</u>	<u>10,531</u>	<u>201,400</u>

2014

Financial liabilities

	Financial liabilities at amortised cost
	<i>HK\$'000</i>
Trade payables	44,546
Financial liabilities included in other payables and accruals.....	23,677
Interest-bearing bank and other borrowings.....	182,692
Due to the immediate holding company	12,365
	<u>263,280</u>

35. TRANSFERS OF FINANCIAL ASSETS

- (i) At 31 December 2014, PuraPharm Nanning, a subsidiary of the Group, endorsed certain bills receivable accepted by a bank in the Mainland China (the “Derecognised Bills”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB1,822,000 (equivalent to HK\$2,279,000) (2012 and 2013: Nil). The Derecognised Bills had a remaining maturity of approximately two months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the Relevant Periods, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the years or cumulatively. The endorsement has been made evenly throughout the year ended 31 December 2014.

- (ii) As part of its normal business, the Group entered into a trade receivables factoring arrangement (the “Arrangement”) and transferred certain trade receivables to banks. Under the Arrangement, the Group has retained the substantial risks and rewards, which include default risks relating to such trade receivables, and accordingly, it continued to recognise the full carrying amounts of the trade receivables. Subsequent to the transfer, the Group did not retain any rights on the use of trade receivables, including the sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of the trade receivables transferred under the Arrangement that have not been settled amounted to nil, HK\$9,830,000 and HK\$14,243,000 as at 31 December 2012, 2013 and 2014, respectively. The carrying amounts of the assets that the Group continued to recognise amounted to nil, HK\$9,830,000 and HK\$14,243,000 as at 31 December 2012, 2013 and 2014, respectively, and that of the associated liabilities amounted to nil, HK\$7,864,000 and HK\$11,217,000 as at 31 December 2012, 2013 and 2014, respectively.

36. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets			
Available-for-sale investments.....	9,962	10,234	10,531
Trade and bill receivables	67,326	98,744	103,098
Financial assets included in prepayments, deposits and other receivables.....	9,786	7,452	8,340
Due from a director	15,931	12,256	11,822
Due from the ultimate holding company.....	56	—	—
Due from related parties	22,706	240	240
Pledged deposits	—	15,861	20,633
Cash and cash equivalents.....	36,839	32,852	46,736
	<u>162,606</u>	<u>177,639</u>	<u>201,400</u>
	Fair values		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets			
Available-for-sale investments.....	9,962	10,234	10,531
Trade and bills receivables.....	67,326	98,744	103,098
Financial assets included in prepayments, deposits and other receivables.....	9,786	7,452	8,340
Due from a director	15,931	12,256	11,822
Due from the ultimate holding company.....	56	—	—
Due from related parties	22,706	240	240
Pledged deposits	—	15,861	20,633
Cash and cash equivalents.....	36,839	32,852	46,736
	<u>162,606</u>	<u>177,639</u>	<u>201,400</u>

	Carrying amounts		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial liabilities			
Trade payables	48,783	29,873	44,546
Financial liabilities included in other payables and accruals....	20,794	18,504	23,677
Interest-bearing bank and other borrowings.....	179,839	188,190	182,692
Loans from a director	3,134	—	—
Due to the immediate holding company	11,929	12,436	12,365
Due to related companies.....	68	416	—
	<u>264,547</u>	<u>249,419</u>	<u>263,280</u>
	Fair values		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial liabilities			
Trade payables	48,783	29,873	44,546
Financial liabilities included in other payables and accruals....	20,794	18,504	23,677
Interest-bearing bank and other borrowings.....	179,839	188,190	182,692
Loans from a director	3,134	—	—
Due to the immediate holding company	11,929	12,436	12,365
Due to related companies.....	68	416	—
	<u>264,547</u>	<u>249,419</u>	<u>263,280</u>

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, and the amount due to the ultimate holding company and loans from a director approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of non-current interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The fair value of the available-for-sale investments has been estimated based on the surrender value of the policy as disclosed in note 16 to the Financial Information.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, balances with related parties, available-for-sale investments and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rate of 100 basis points, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/(decrease) of the Group's profit before tax		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
If decrease by 100 basis points	1,259	1,312	1,242
If increase by 100 basis points.....	(1,259)	(1,312)	(1,242)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity at the end of the Relevant Periods to a reasonably possible change by 5% in HK\$ exchange rates against RMB, with all other variables held constant, of the Group's profit before tax due to changes in the fair values of monetary assets and liabilities.

	Year ended 31 December		
	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
If RMB weakens against HK\$ by 5%			
Decrease in profit before tax	(3,574)	(3,014)	(3,718)
If RMB strengthens against HK\$ by 5%			
Increase in profit before tax	3,574	3,014	3,718

Credit risk

There is no significant concentration of credit risk within the Group as the customer bases of the Group's trade and bills receivables are dispersed.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from a director, the ultimate holding company and related companies and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 18 to the Financial Information.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings. Cash flows are being closely monitored on an ongoing basis.

The maturity profile of the financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2012				
	On demand	Less than 3 months	3 to 12 months	Total	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Interest-bearing bank and other borrowings (note)	179,353	135	391	179,879	
Trade payables	—	41,736	7,047	48,783	
Other payables	—	20,794	—	20,794	
Due to the immediate holding company	11,929	—	—	11,929	
Due to related parties	68	—	—	68	
Loans from a director	3,134	—	—	3,134	
	<u>194,484</u>	<u>62,665</u>	<u>7,438</u>	<u>264,587</u>	
	2013				
	On demand	Less than 3 months	3 to 12 months	1 to 2 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank and other borrowings (note)	177,646	1,510	4,508	4,961	188,625
Trade payables	—	27,400	2,473	—	29,873
Other payables	—	18,504	—	—	18,504
Due to the immediate holding company	12,436	—	—	—	12,436
Due to related companies	416	—	—	—	416
	<u>190,498</u>	<u>47,414</u>	<u>6,981</u>	<u>4,961</u>	<u>249,854</u>

	2014			
	On demand	Less than 3 months	3 to 12 months	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank and other borrowings (note)	178,321	3,682	723	182,726
Trade payables	—	35,884	8,662	44,546
Other payables	—	23,677	—	23,677
Due to the immediate holding company	12,365	—	—	12,365
	<u>190,686</u>	<u>63,243</u>	<u>9,385</u>	<u>263,314</u>

Note: Interest-bearing bank and other borrowings in the amount of HK\$179,353,000, HK\$177,646,000 and HK\$178,321,000 include a repayment on-demand clause in the loan agreements giving the banks the unconditional right to call in the loans at any time and therefore, for the purpose of the above maturity profile, the amounts are classified as “on demand”.

Notwithstanding the above clause, the Directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the end of each of the Relevant Periods, the Group's compliance with the loan covenants, the lack of events of default, and the fact that the Group has made all previously scheduled repayments on time. In accordance with the terms of the loans, the contractual undiscounted payments as at 31 December 2012, 2013 and 2014 are as follows:

Year ended 31 December	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
2012.....	19,969	17,519	120,904	28,773	187,165
2013.....	7,813	60,783	80,628	47,583	196,807
2014.....	16,061	68,874	97,227	6,265	188,427

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012, 2013 and 2014.

The Group monitors capital using a gearing ratio, which is net debt divided by the net debt and equity. Net debt includes trade payables, other payables and accruals, interest-bearing bank and other borrowings, loans from a director, amounts due to the immediate holding company and amounts due to related companies less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

Group	2012	2013	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest-bearing bank and other borrowings	179,839	188,190	182,692
Trade payables	48,783	29,873	44,546
Other payables and accruals	39,299	38,682	37,688
Loans from a director	3,134	—	—
Due to the immediate holding company	11,929	12,436	12,365
Due to related companies	68	416	—
Less: cash and cash equivalents	<u>(36,839)</u>	<u>(32,852)</u>	<u>(46,736)</u>
Net debt	<u>246,213</u>	<u>236,745</u>	<u>230,555</u>
Equity attributable to owners of the parent	<u>43,974</u>	<u>73,032</u>	<u>135,689</u>
Net debt and equity	<u>290,187</u>	<u>309,777</u>	<u>366,244</u>
Gearing ratio	<u>85%</u>	<u>76%</u>	<u>63%</u>

38. EVENTS AFTER THE REPORTING PERIOD

Except as disclosed in the paragraph headed “Subdivision of Shares and Increase of Authorised Share Capital” in the section headed “History, Reorganisation and Corporate Structure” to the Prospectus, there are no material subsequent events undertaken by the Company or by the Group after the reporting period.

(III) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2014.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
 Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this Prospectus, and is included for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the Accountants' Report set out in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the global offering by the Company of its shares (the "Global Offering") on the consolidated net tangible assets of the Group attributable to the equity shareholders of the Company as of 31 December 2014 as if the Global Offering had taken place on 31 December 2014.

This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as of 31 December 2014 or at any future date.

	Consolidated net tangible assets attributable to the equity shareholders of the Company as of 31 December 2014 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾⁽⁴⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity shareholders of the Company ⁽³⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to the equity shareholders of the Company per Share ⁽³⁾⁽⁴⁾
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$</i>
Based on an Offer Price of				
HK\$5.16 per Share	128,555	244,668	373,223	1.7
Based on an Offer Price of				
HK\$6.19 per Share	128,555	300,288	428,843	1.9

Notes:

- (1) The consolidated net tangible assets attributable to the equity shareholders of the Company as of 31 December 2014 is based on the consolidated net assets attributable to the equity shareholders of the Company of HK\$135.7 million as of 31 December 2014 after an adjustment for the intangible assets of HK\$7.1 million as of the date as shown in the Accountants' Report set out in Appendix I to this Prospectus.

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- (2) The estimated net proceeds from the Global Offering are based on the Offer Prices of HK\$5.16 and HK\$6.19 per Share, respectively, being the lower end price and higher end price of the stated Offer Price range, after deduction of the underwriting fees and other related expenses payable by the Company of HK\$45.6 million and HK\$47.9 million, respectively.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to the equity shareholders of the Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 225,000,000 Shares were in issue assuming that the Global Offering had been completed on 31 December 2014 (including 56,250,000 Shares newly issued and 14,880,000 Sale Shares in the Global Offering but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or of any Shares which may be issued upon the exercise of any option which may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by the Company pursuant to the general mandate to issue Shares and the general mandate to repurchase Shares) and the respective Offer Prices of HK\$5.16 and HK\$6.19 per Share.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2014.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in connection with the unaudited pro forma financial information of the Group.



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

25 June 2015

To the Directors of PuraPharm Corporation Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of PuraPharm Corporation Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2014, and related notes as set out on Part A of Appendix II to the Prospectus issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Section (A) of Appendix II to the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 31 December 2014 as if the transaction had taken place at 31 December 2014. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the year ended 31 December 2014, on which an accountant’s report has been published.

Directors’ responsibility 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” issued by the Hong Kong Institute of Certified Public Accountants (the “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 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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 AG7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by HKICPA.

For purposes 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 the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if 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 the transaction 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 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 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.

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 purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

ERNST & YOUNG
Certified Public Accountants
Hong Kong

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 December 2011 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and the Amended and Restated Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

- 1.1 The Memorandum provides, inter alia, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 12 June 2015 and will become effective on the Listing Date. The following is a summary of certain provisions of the Articles:

2.1 Shares

2.1.1 Classes of shares

The share capital of the Company consists of ordinary shares.

2.1.2 Share certificates

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by 2 Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed

by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than 4 persons as joint holders of any share.

2.2 Directors

2.2.1 Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached 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). Any share may be issued on terms that upon the happening of a specified event or upon a given date and either at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

2.2.2 Power to dispose of the assets of the Company or any subsidiary

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

2.2.3 Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

2.2.4 Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors and their close associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or if any one or more of the Directors hold (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

2.2.5 Disclosure of interest in contracts with the Company or with any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, upon such terms as the Board may determine, and may be paid such extra remuneration 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 or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his close associate(s) is/are materially interested, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters namely:

- (a) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any proposal 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;
- (d) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including (i) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or
- (e) 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.

2.2.6 Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion 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 has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (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 shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

2.2.7 Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board 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. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the head office or at the registration office. The period for lodgement of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given must be at least 7 days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to retirement by rotation provisions in the articles of association. The number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (a) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;

- (b) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (c) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (d) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (e) if he is prohibited from being a director by law;
- (f) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (g) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (h) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director or Directors and other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

2.2.8 Borrowing powers

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The provisions summarised above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

2.2.9 Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

2.2.10 Proceedings of the Board

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alterations to the constitutional documents

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed by the Company by special resolution.

2.4 Variation of rights of existing shares or classes of shares

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, by an ordinary resolution of its members, (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Cayman Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

2.6 Special resolution - majority required

In accordance with 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 by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is 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 members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 14 clear days’ notice has been given and held in accordance with the Articles. A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

2.7 Voting rights (generally and on a poll) and right to demand a poll when Chairman allows a show of hands

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purpose as paid up on the share, on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by:

- (i) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (ii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s), be a member of the Company, such person or persons may be authorised 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 authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s), as if such person were an individual member including the right to vote individually on a show of hands where voting by a show of hands is allowed.

Where the Company has knowledge that any member is, under the Listing Rules, 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 member in contravention of such requirement or restriction shall not be counted.

2.8 Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

2.9 Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarised financial statements.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.10 Notices of meetings and business to be conducted thereat

An annual general meeting must be called by at least 21 days' notice in writing, and a general meeting of the Company, other than an annual general meeting shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

2.10.1 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

2.10.2 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 holding not less than 95% of the total voting rights at the meeting of all the members of the Company.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;
- (e) the fixing of the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
- (g) the granting of any mandate or authority to the Board to repurchase securities in the Company.

2.11 Transfer of shares

Subject to the Cayman Companies Law, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve provided always that it shall be in such form prescribed by the Stock Exchange and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers in any case in which it in its discretion thinks fit 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 of the Company in respect thereof.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme 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 recognise any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules (as defined in the Articles), be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Cayman 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 requirement imposed from time to time by the Articles, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all members alike.

2.13 Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

2.14 Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- 2.14.1 all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- 2.14.2 all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (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 members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the

holder's or joint holders' risk and payment of the 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 monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 % per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise 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, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointer or of his attorney duly authorised in writing, or if the appointer is a corporation, either under seal or under the hand of an officer or attorney duly authorised. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for use by him for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

2.16 Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. 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 20% per annum as the Board shall fix 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 money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and it shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the 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, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

2.17 Inspection of corporate records

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised 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.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3.6 of this Appendix.

2.20 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:

- 2.20.1 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, then 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

2.20.2 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, on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or compelled by the court) the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets 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 and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.21 Untraceable members

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- 2.21.1 all cheques or warrants, 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;
- 2.21.2 upon the expiry of the 12 years and 3 months period (being the 3 months notice period referred to in sub-paragraph (2.21.3)), the Company has not during that time received any indication of the existence of the member; and
- 2.21.3 the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (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.

2.22 Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 2 December 2011 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, 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 authorised share capital.

3.2 Share capital

In accordance with the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman 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 such manner as the company may from time to time determine including, but without limitation, the following:

3.2.1 paying distributions or dividends to members;

3.2.2 paying up unissued shares of the company to be issued to members as fully paid bonus shares;

3.2.3 any manner provided in section 37 of the Cayman Companies Law;

3.2.4 writing-off the preliminary expenses of the company; and

3.2.5 writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Cayman Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Cayman Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include 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.

3.3 Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorised by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Under Section 37A(1) the Cayman Companies Law, shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy 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.

3.5 Dividends and distributions

With the exception of sections 34 and 37A(7) of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman 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 sub-paragraph 2.14 of this Appendix for further details). Section 37A(7)(c) of the Cayman Companies Law provides that for so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

3.6.1 an act which is ultra vires the company or illegal;

3.6.2 an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

3.6.3 an irregularity in the passing of a resolution the passage of which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of assets

There are no specific restrictions in the Cayman Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that 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 interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

3.8 Accounting and auditing requirements

Section 59 of the Cayman Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to 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.

Section 59 of the Cayman Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If the Company keeps its books of account at any place other than at its registered office or at any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

Pursuant to section 6 of the Tax Concessions Law (2013 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- 3.10.1 that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- 3.10.2 in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (a) on or in respect of the shares, debentures or other obligations of the Company; or
 - (b) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of twenty years from 31 March 2015.

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.

3.11 Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

The Cayman Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of the company have no general right under the Cayman 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 of association.

3.14 Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The Cayman Companies Law contains no requirement for

an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

3.15 Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the Company so resolves by special resolution that it be wound up voluntarily, or, where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due; 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 where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators shall be appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company 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.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order shall take effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorised 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.

3.16 Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Cayman Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.17 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

3.18 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 2 December 2011 and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 18 March 2015. We have established a principal place of business in Hong Kong at Suite 4002, Jardine House, 1 Connaught Place, Central, Hong Kong. Mr. Cheng Hok Kai, Frederick who resides at Flat C, 12/F, 10 Lai Wan Road, Mei Foo Sun Chuen, Kowloon, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Cayman Companies Law and its constitution comprising the Memorandum and the Articles. A summary of certain provisions of its constitution and relevant aspects of the Cayman Companies Law is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

Our authorised share capital as at the date of our incorporation was US\$50,000 divided into 50,000 shares of US\$1.00 each. On 2 December 2011, one Share was allotted and issued to Offshore Incorporations (Cayman) Limited and such Share was subsequently transferred to PuraPharm Corp. on the same day. On 31 December 2014, our Company increased its authorised share capital to US\$10,000,000.00 through the creation of 9,950,000 Shares. On the same date, 3,870,967 Shares were allotted and issued to PuraPharm Corp. at a consideration of US\$3,870,967.

On 12 June 2015, our Company sub-divided all its issued and unissued shares with par value of US\$1.00 each into 10 Shares of US\$0.10 each. On the same day, our Company increased its authorised share capital to US\$5,000,000,000 divided into 50,000,000,000 Shares with a par value of US\$0.10 each by the creation of an additional 49,900,000,000 Shares.

Immediately following the completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the issued share capital of our Company will be US\$22,500,000 divided into 225,000,000 Shares of US\$0.10 each, all fully paid or credited as fully paid and 49,775,000,000 Shares will remain unissued.

Save for aforesaid and as mentioned in the sub-section headed “3. Resolutions in writing of the Shareholders of our Company passed on 12 June 2015” below in this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions in writing of the Shareholders of our Company passed on 12 June 2015

- (i) Pursuant to written resolutions of the Shareholders of our Company passed on 12 June 2015:
 - (a) we approved and adopted the amended and restated Memorandum and Articles of Association which will become effective upon the Listing Date;
 - (b) we subdivided each existing and issued and unissued share of US\$1.00 in the capital of our Company into 10 new ordinary shares of US\$0.10 each;
 - (c) the authorised share capital of our Company was increased from US\$10,000,000.00 divided into 100,000,000 Shares to US\$5,000,000,000.00 divided into 50,000,000,000 Shares by the creation of an additional 49,900,000,000 Shares of US\$0.10 each;
 - (d) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the Global Offering and the Capitalisation Issue and Shares to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme); (ii) the entering into of the Price Determination Agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date; (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Global Offering was approved and our Directors were authorised to allot and issue the new Shares pursuant to the Global Offering;
 - (ii) the Over-allotment Option was approved;
 - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraphs headed “Other Information — Share Option Scheme” below in this Appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme; and
 - (iv) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to capitalise an amount of US\$13,004,032.00 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 130,040,320 Shares, such Shares to be allotted and issued to our Shareholder(s) as of the date immediately before the Listing Date on a pro rata basis.

- (e) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering and Capitalisation Issue (but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;
- (f) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first; and
- (g) the general unconditional mandate mentioned in paragraph (f) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (g) above.

4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. Please refer to the section “History, Reorganisation and Corporate Structure” in this prospectus.

5. Changes in share capital of subsidiaries

Our subsidiaries are referred to in the Accountants' Report in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants' Report and in the section headed "History, Reorganisation and Corporate Structure", our Company has no other subsidiaries.

There are no changes in share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchases of our Shares

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to resolution passed by our Shareholders on 12 June 2015, a general unconditional mandate (the "**Buyback Mandate**") was granted to our Directors authorising the repurchase of shares by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued as mentioned herein, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by an applicable law or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with our Articles and the laws of the Cayman Islands. A listed company may not repurchase its 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 in effect from time to time.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to have general authority from our Shareholders to enable our Directors to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such

repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company, the share premium amount of our Company or the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of either or both of the profits of our Company or the share premium account of our Company or, subject to the Cayman Companies Law, out of capital.

Our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) Share capital

Exercise in full of the Buyback Mandate, on the basis of 225,000,000 Shares in issue immediately after the Listing (but not taking into account our Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme), could accordingly result in up to 22,500,000 Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles to be held; or
- (iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting, whichever occurs first.

(e) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No core connected person (as defined in the Listing Rules) has notified us that he/she/it has a present intention to sell Shares to us, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the shareholder's interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Our Directors are not aware of any other consequences which may arise under the Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following completion of the Global Offering and the Capitalisation Issue (but not taking into account our Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme), the total number of Shares which will be repurchased pursuant to the Buyback Mandate shall be 22,500,000 Shares, being 10% of the issued share capital of our Company based on the aforesaid assumptions. The percentage shareholding of our Controlling Shareholders will be increased to approximately 63.63% of the issued share capital of our Company immediately following the full exercise of the Buyback Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. INFORMATION ABOUT THE BUSINESS

1. Summary of Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years preceding the date of this prospectus that are or may be material:

- (a) instrument of transfer dated 29 January 2015 between Mr. Chan Yu Ling, Abraham as transferor and PuraPharm Health Limited as transferee regarding the transfer of one share in PuraPharm Research Corporation Limited (培力科研有限公司) at nil consideration;
- (b) instrument of transfer dated 29 January 2015 between Mr. Chan Yu Ling, Abraham as transferor and PuraPharm Health Limited as transferee regarding the transfer of one share in PuraPharm International Limited (培力健康食品有限公司) at nil consideration;

- (c) instrument of transfer dated 29 January 2015 between Mr. Chan Yu Ling, Abraham as transferor and PuraPharm Health Limited as transferee regarding the transfer of one share in PuraPharm International (H.K.) Limited (培力(香港)健康產品有限公司) at nil consideration;
- (d) instrument of transfer dated 29 January 2015 between Mr. Chan Yu Ling, Abraham as transferor and PuraPharm Health Limited as transferee regarding the transfer of one share in Poly Modern TCM Research Institute Limited (國大精研有限公司) at nil consideration;
- (e) instrument of transfer dated 29 January 2015 between Mr. Chan Yu Ling, Abraham as transferor and Nong's Clinic Holdings Limited as transferee regarding the transfer of one share in Nong's Chinese Medicine Clinic Centre Limited (農本方中醫藥診療中心有限公司) at nil consideration;
- (f) instrument of transfer dated 5 February 2015 between Mr. Chan Yu Ling, Abraham as transferor and Nong's Clinic Holdings Limited as transferee regarding the transfer of one share in Nong's Chinese Medicine Health Care Centre Limited (農本方中醫藥保健中心有限公司) at nil consideration;
- (g) instrument of transfer dated 4 March 2015 between Mr. Chan Yu Ling, Abraham as transferor and Nong's Corporation Limited as transferee regarding the transfer of one share in Nong's Company Limited (農本方有限公司) at nil consideration;
- (h) the deed of indemnity dated 16 June 2015 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries) in respect of, amongst others, taxation and property matters referred to in the paragraph headed "Tax and other indemnities" in this Appendix;
- (i) the Deed of Non-Competition; and
- (j) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of Our Group




(a) Patents

As at the Latest Practicable Date, our Group was the registered proprietor of the following patents which, in the opinion of our Directors, are material to our business:

Patent	Type	Patent Number	Name of Registered Proprietor	Place of Registration	Expiry Date
Method for extracting, package and preparation of a volatile oil heavier than water (一種比水重的揮發油提取包裹製備方法)	Invention	ZL201010178094.3	PuraPharm Nanning	China	19 May 2030
A method to improve the quality of extract from traditional Chinese medicine containing ginseng and saponins (一種提高含人參皂苷類中藥提取物質量的製備方法)	Invention	ZL201010218537.7	PuraPharm Nanning	China	5 July 2030
Diagonal 3D displacement roller-type TCM formula granule mixer (對角三維位移的滾輪式中藥配方顆粒混合機)	Design	ZL201030284617.3	PuraPharm HK	China	18 August 2020
Drugstore (藥房)	Design	ZL201030284616.9	PuraPharm HK	China	18 August 2020
Mixer (混合機)	Utility Model	ZL201020557240.9	PuraPharm HK	China	28 September 2020
Traditional Chinese medicine dispensing system (中藥配藥系統)	Utility Model	ZL201020589251.5	PuraPharm HK	China	20 October 2020
A production process of TCM formula granule placebo (一種中藥配方顆粒安慰劑的製作工藝)	Invention	ZL201110058654.6	PuraPharm Nanning	China	10 March 2031




(b) Trademarks

As at the Latest Practicable Date, our Group was the registered proprietor of the following trademarks which, in the opinion of our Directors, are material to our business:

Trademark	Registration Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
NONG'S	849744	05	PuraPharm HK	Australia	11 September 2000	11 September 2020
<u>ONCO-Z</u>	1337207	05	PuraPharm HK	Australia	15 December 2009	15 December 2019
PURAGOLD	845094	05	PuraPharm HK	Australia	4 August 2000	4 August 2020
	833921	05, 30	PuraPharm HK	Australia	5 May 2000	5 May 2020
<u>農本方</u>	845098	05	PuraPharm HK	Australia	4 August 2000	4 August 2020
	998389	05	PuraPharm HK	Australia	20 April 2004	20 April 2024
NONGS	5867866	05	PuraPharm HK	China	14 January 2010	13 January 2020
NONG'S	1656505	05	PuraPharm HK	China	28 October 2011	27 October 2021
<u>ONCO-Z</u>	7914795	05	PuraPharm HK	China	21 January 2011	20 January 2021
Oncozac	3303648	05	PuraPharm HK	China	7 February 2014	6 February 2024
<u>培力金靈芝</u>	3660408	29	PuraPharm HK	China	7 June 2005	6 June 2025
PuraGold	1568425	05	PuraPharm HK	China	14 May 2011	13 May 2021
PURAPHARM	1906536	05	PuraPharm HK	China	21 December 2012	20 December 2022
<u>PuraPharm</u>	1683291	32	PuraPharm HK	China	14 December 2011	13 December 2021
	1428419	05	PuraPharm HK	China	7 August 2010	6 August 2020



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STATUTORY AND GENERAL INFORMATION

Trademark	Registration Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
	1619304	29	PuraPharm HK	China	14 August 2011	13 August 2021
	1654892	30	PuraPharm HK	China	21 October 2011	20 October 2021
	10216402	44	PuraPharm HK	China	7 March 2013	6 March 2023
培力	1401483	05	PuraPharm HK	China	28 May 2010	27 May 2020
培力	1634758	29	PuraPharm HK	China	14 September 2011	13 September 2021
培力	1654891	30	PuraPharm HK	China	21 October 2011	20 October 2021
培力	1659193	32	PuraPharm HK	China	28 October 2011	27 October 2021
培力金靈芝	4822967	05	PuraPharm HK	China	28 December 2010	27 December 2020
安固生	3303647	05	PuraPharm HK	China	7 February 2014	6 February 2024
農本方	1386463	05	PuraPharm HK	China	21 April 2010	20 April 2020
農本方	3003232	29	PuraPharm HK	China	28 November 2012	27 November 2022
農本方	3003231	30	PuraPharm HK	China	21 January 2013	20 January 2023
金靈芝	3092173	29	PuraPharm HK	China	7 February 2014	6 February 2024
NONG	5867865	05	PuraPharm HK	China	21 September 2013	20 September 2023
NONG'S	10216403	44	PuraPharm HK	China	21 January 2013	20 January 2023
NONG'S	200104326	05	PuraPharm HK	Hong Kong	7 September 2000	7 September 2017

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STATUTORY AND GENERAL INFORMATION

Trademark	Registration Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
NONG'S	302093265	44	PuraPharm HK	Hong Kong	22 November 2011	21 November 2021
ONCO-Z	301398178	05	PuraPharm HK	Hong Kong	3 August 2009	2 August 2019
Oncozac	200400539	05	PuraPharm HK	Hong Kong	7 September 2002	7 September 2019
PURAGOLD PuraGold	200100595	05	PuraPharm HK	Hong Kong	3 February 2000	3 February 2017
PURAPHARM	199915297	5	PuraPharm HK	Hong Kong	6 August 1998	6 August 2015
 PuraPharm	301298971	3, 5	PuraPharm HK	Hong Kong	6 March 2009	5 March 2019
 PuraPharm	200207942AA	29, 30, 32	PuraPharm HK	Hong Kong	17 January 2000	17 January 2017
 PuraPharm	302093283	44	PuraPharm HK	Hong Kong	22 November 2011	21 November 2021
培力	2000B10948	5	PuraPharm HK	Hong Kong	7 August 1998	7 August 2015
培力	302093274	44	PuraPharm HK	Hong Kong	22 November 2011	21 November 2021
安固生	2004B00540	5	PuraPharm HK	Hong Kong	7 September 2002	7 September 2019
農本方	200002627	5	PuraPharm HK	Hong Kong	28 September 1998	28 September 2015
農本方	200213575	9	PuraPharm HK	Hong Kong	18 January 2002	18 January 2019
農本方	200210574	42	PuraPharm HK	Hong Kong	18 January 2002	18 January 2019
農本方	302093256	44	PuraPharm HK	Hong Kong	22 November 2011	21 November 2021
金靈芝	2000B11504	5	PuraPharm HK	Hong Kong	31 March 1999	31 March 2016


Trademark	Registration Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
NONG'S	302517237	3, 5, 7, 10, 11, 29, 30, 31, 32, 35	PuraPharm HK	Hong Kong	5 February 2013	4 February 2023
	302517200	7, 10, 11, 31, 35	PuraPharm HK	Hong Kong	5 February 2013	4 February 2023
培力	302517219	3, 7, 10, 11, 29, 30, 31, 32, 35	PuraPharm HK	Hong Kong	5 February 2013	4 February 2023
農本堂	302522853	44	PuraPharm HK	Hong Kong	15 February 2013	14 February 2023
農本方	302517228	3, 5, 7, 10, 11, 29, 30, 31, 32, 35	PuraPharm HK	Hong Kong	5 February 2013	4 February 2023
ENCOZAC	T0414502D	5	PuraPharm HK	Singapore	30 August 2004	30 August 2024
NONG'S	T00159821	5	PuraPharm HK	Singapore	11 September 2000	11 September 2020
ONCO-Z	T1001636B	5	PuraPharm HK	Singapore	9 February 2010	9 February 2020
PURAGOLD PuraGold	T0001671H	5	PuraPharm HK	Singapore	4 February 2000	4 February 2020
	T9809292B	5	PuraPharm HK	Singapore	12 September 1998	12 September 2018
培力	T9809636G	5	PuraPharm HK	Singapore	24 September 1998	24 September 2018
培力金靈芝	T0202102F	5	PuraPharm HK	Singapore	26 February 2002	26 February 2022

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Trademark	Registration Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
	T0000004H	5	PuraPharm HK	Singapore	3 January 2000	3 January 2020
	T9910971C	5	PuraPharm HK	Singapore	30 September 1999	30 September 2019
NONG'S	00962671	5	PuraPharm HK	Taiwan	1 October 2001	30 September 2021
PuraGold	00930050	5	PuraPharm HK	Taiwan	16 February 2001	15 February 2021
	00893866	5	PuraPharm HK	Taiwan	16 June 2000	15 June 2020
	00995487	29	PuraPharm HK	Taiwan	16 April 2002	15 June 2020
	00972208	30	PuraPharm HK	Taiwan	16 November 2001	15 November 2021
	00932391	32	PuraPharm HK	Taiwan	16 February 2001	15 February 2021
	00956585	29	PuraPharm HK	Taiwan	16 August 2001	15 August 2021
	00959582	5	PuraPharm HK	Taiwan	16 September 2001	15 September 2021
	00997913	5	PuraPharm HK	Taiwan	16 May 2002	15 September 2021
	00874965	5	PuraPharm HK	Taiwan	16 November 1999	15 November 2019
	01038516	32	PuraPharm HK	Taiwan	16 March 2003	31 January 2023
	01032146	30	PuraPharm HK	Taiwan	1 February 2003	31 January 2023
	01008539	29	PuraPharm HK	Taiwan	16 July 2002	15 November 2019

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Trademark	Registration Number	Class	Name of Registered Proprietor	Place of Registration	Date of Registration	Expiry Date
	01021926	5	PuraPharm HK	Taiwan	16 November 2002	15 November 2022

As of the Latest Practicable Date, our Group had applied for the registration of the following trademarks:

Trademark	Application Number	Class	Name of Applicant	Place of Application	Date of Application
NONG'S	12165953	03	PuraPharm HK	China	7 February 2013
NONG'S	12165954	05	PuraPharm HK	China	7 February 2013
NONG'S	12165955	07	PuraPharm HK	China	7 February 2013
NONG'S	12165956	10	PuraPharm HK	China	7 February 2013
NONG'S	12165957	11	PuraPharm HK	China	7 February 2013
NONG'S	12165970	29	PuraPharm HK	China	7 February 2013
NONG'S	12165958	30	PuraPharm HK	China	7 February 2013
NONG'S	12165959	31	PuraPharm HK	China	7 February 2013
NONG'S	12165969	32	PuraPharm HK	China	7 February 2013
NONG'S	12001505	35	PuraPharm HK	China	6 January 2013
PURAGOLD	12001504	35	PuraPharm HK	China	6 January 2013
	12165923	03	PuraPharm HK	China	7 February 2013

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Trademark	Application Number	Class	Name of Applicant	Place of Application	Date of Application
	12165936	05	PuraPharm HK	China	7 February 2013
	12165937	07	PuraPharm HK	China	7 February 2013
	12165938	10	PuraPharm HK	China	7 February 2013
	12165939	11	PuraPharm HK	China	7 February 2013
	12165940	29	PuraPharm HK	China	7 February 2013
	12165941	30	PuraPharm HK	China	7 February 2013
	12165942	31	PuraPharm HK	China	7 February 2013
	12165943	32	PuraPharm HK	China	7 February 2013
	12001506	35	PuraPharm HK	China	6 January 2013
培力	12165944	03	PuraPharm HK	China	7 February 2013
培力	12165945	05	PuraPharm HK	China	7 February 2013
培力	12165946	07	PuraPharm HK	China	7 February 2013
培力	12165947	10	PuraPharm HK	China	7 February 2013
培力	12165948	11	PuraPharm HK	China	7 February 2013
培力	12165949	29	PuraPharm HK	China	7 February 2013

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Trademark	Application Number	Class	Name of Applicant	Place of Application	Date of Application
培力	12165950	30	PuraPharm HK	China	7 February 2013
培力	12165951	31	PuraPharm HK	China	7 February 2013
培力	12165952	32	PuraPharm HK	China	7 February 2013
培力	11922846	44	PuraPharm HK	China	20 December 2012
農本方	12165968	03	PuraPharm HK	China	7 February 2013
農本方	12165967	05	PuraPharm HK	China	7 February 2013
農本方	12165966	07	PuraPharm HK	China	7 February 2013
農本方	12165965	10	PuraPharm HK	China	7 February 2013
農本方	12165964	11	PuraPharm HK	China	7 February 2013
農本方	12165963	29	PuraPharm HK	China	7 February 2013
農本方	12165962	30	PuraPharm HK	China	7 February 2013
農本方	12165961	31	PuraPharm HK	China	7 February 2013
農本方	12165960	32	PuraPharm HK	China	7 February 2013

(c) Domain names

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names which, in the opinion of our Directors, are material to our business:

Domain name	Name of Registered Proprietor	Date of Registration	Expiry Date
puragold.com	PuraPharm HK	3 February 2000	3 February 2016
nongs-otc.com.....	PuraPharm HK	28 February 2013	28 February 2016
purapharm.com	PuraPharm HK	29 July 1998	28 July 2018
oncozac.com	PuraPharm HK	11 November 2002	11 November 2016
nongs.com.....	PuraPharm HK	28 December 2001	28 December 2016

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of Interests — Interests and short positions of the Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Global Offering and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised and without taking into account Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the interests or short positions of our Directors or chief executives of our Company in the shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be

required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and the Stock Exchange, once our Shares are listed will be as follows:

(i) *Interest in our Company*

Name of Director	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding interest
Mr. Chan ⁽²⁾⁽³⁾	Interest of controlled corporations	128,852,500(L)	57.28%
	Interest of spouse	51,566,500(L)	22.93%
Ms. Man ⁽⁴⁾⁽⁵⁾	Interest of a controlled corporation	51,566,500(L)	22.93%
	Interest of spouse	128,852,500(L)	57.28%
Mr. Chan Kin Man, Eddie ⁽⁶⁾	Interest of controlled corporations	3,125,000(L)	1.38%

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Mr. Chan beneficially owns the entire issued share capital of Fullgold Development. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by Fullgold Development.
- (3) Mr. Chan is the spouse of Ms. Man. By virtue of the SFO, Mr. Chan is deemed to be interested in the Shares held by Ms. Man.
- (4) Ms. Man beneficially owns the 50% of the issued share capital of Joint Partners, which in turn owns the entire issued share capital of PuraPharm Corp.. PuraPharm Corp. owns 22.93% of the issued share capital of our Company. By virtue of the SFO, Ms. Man is deemed to be interested in the Shares held by PuraPharm Corp..
- (5) Ms. Man is the spouse of Mr. Chan. By virtue of the SFO, Ms. Man is deemed to be interested in the Shares held by Mr. Chan.
- (6) Mr. Chan Kin Man, Eddie beneficially owns the entire issued share capital of each of Best Revenue Investments Limited and K. M. Chan & Co. Limited. By virtue of the SFO, Mr. Chan Kin Man, Eddie is deemed to be interested in the Shares held by Best Investments Limited and K. M. Chan & Co. Limited.

(b) *Particulars of service contracts*

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date (save for Mr. Leung Chin Man’s service contract which is for a term of one year commencing from the Listing Date), which may be terminated by not less than three months’ notice in writing served by either party on the other.

(c) Directors' remuneration

Each of our executive Directors is entitled to a remuneration and shall be paid on the basis of a twelve-month year. The current annual remuneration (including fees, salaries, contributions to pension schemes, allowances, other benefits in kind) of Mr. Chan Yu Ling, Abraham, Dr. Tsoi Kam Biu, Alvin, Mr. Leung Chin Man and Ms. Man Yee Wai, Viola for the year ended 31 December 2014 are as follows:

Name	Annual Director's Remuneration
	<i>(HK\$)</i>
Mr. Chan Yu Ling, Abraham	3,725,000
Mr. Tsoi Kam Biu, Alvin	1,623,000
Mr. Leung Chin Man	2,319,000
Ms. Man Yee Wai, Viola	1,179,000

Our non-executive Director and independent non-executive Directors have been appointed for a term of three years. We intend to pay a director's fee of HK\$200,000 per annum to each of Mr. Chan Kin Man, Eddie, Dr. Leung Kim Man, Simon, Dr. Chan Kin Keung, Eugene, Mr. Ho Kwok Wah and Prof. Tsui Lap Chee.

Further details of the terms of the abovementioned service contracts are set out in the paragraph headed "C. Further Information about Directors and Substantial Shareholders — 1. Directors — (b) Particulars of Service Contracts" above in this Appendix.

2. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue assuming that the Over-allotment Option is not exercised and taking no account of any Shares that may be issued pursuant to the exercise of options which were granted under the Share Option Scheme, the following persons (other than our Directors and chief executives of our Company) will have or be deemed or taken to have an interest and/or short position in our Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of interest in our Company immediately following the completion of the Capitalisation Issue and Global Offering
Fullgold Development	Beneficial owner	77,286,000(L)	34.35%
Joint Partners ⁽²⁾	Interest of a controlled corporation	51,566,500(L)	22.93%
PuraPharm Corp.	Beneficial owner	51,566,500(L)	22.93%

Note:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) PuraPharm Corp. is beneficially and wholly owned by Joint Partners. By virtue of the SFO, Joint Partners is deemed to be interested in the Shares held by PuraPharm Corp..

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

4. Disclaimers

Save as disclosed this prospectus:

- (a) none of our Directors or chief executives of our Company has any interest or short position in our shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning 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 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 for Securities Transactions by Directors of Listed Companies once our Shares are listed;

- (b) none of our Directors or experts referred to under the paragraph headed “— D. Other information — 9. Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (f) none of the experts referred to under the paragraph headed “— D. Other information — 9. Consents of Experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) so far as is known to our Directors as at the Latest Practicable Date, none of our Directors, their respective associates (as defined under the Listing Rules) or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 12 June 2015.

(a) Purpose

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognise and acknowledge the contributions that the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and
- (ii) attract and retain or otherwise maintain an on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) *Who may join*

The Board may, at its discretion, offer to grant an option to the following persons (collectively the “Eligible Participants”) to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, distributors and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) *Acceptance of an offer of Options*

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options 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 relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an Option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the Option is thereby exercised and 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 Exercise Price for our Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial adviser as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the Grantee certificates in respect of our Shares so allotted.

The exercise of any Option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company.

(d) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering, being 22,500,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of our Shares in issue as at the date of the approval by our Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing and subject to paragraph (r) below, 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 share option schemes of our Company at any time shall not exceed 30% of our Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure

of our Company in accordance with paragraph (r) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(e) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant), the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of our Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine (or, alternatively, documents accompanying the offer document which state), among others:
 - (aa) the Eligible Participant's name, address and occupation;
 - (bb) the date on which an Option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
 - (cc) the date upon which an offer for an Option must be accepted;
 - (dd) the date upon which an Option is deemed to be granted and accepted in accordance with paragraph (c);
 - (ee) the number of Shares in respect of which the Option is offered;
 - (ff) the subscription price and the manner of payment of such price for our Shares on and in consequence of the exercise of the Option;
 - (gg) the date of the notice given by the grantee in respect of the exercise of the Option; and

(hh) the method of acceptance of the Option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

(f) Price of Shares

Subject to any adjustments made as described in paragraph (r) below, the subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

- (i) the official closing price of our Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of our Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(g) Granting options to connected persons

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options 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:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of our Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of our Shares at the date of each grant, such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before our Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

(h) Restrictions on the times of grant of Options

A grant of options may not be made after a price sensitive event has occurred or after inside information has come to the knowledge of our Company until it has been published pursuant to the requirements of the Listing Rules and the Inside Information Provisions of Part XIVA of the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules)

and ending on the date of actual publication of the results announcement, and where an option is granted to a Director:

- (iii) no options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (iv) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) Rights are personal to grantee

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. 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 our Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) Time of exercise of Option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(k) Performance target

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) Rights on ceasing employment or death

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(m) Rights on dismissal

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of our Group (if so determined by the Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, or has been convicted of any criminal offense involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

(n) Rights on takeover

If a general offer is made to all our Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) Rights on winding-up

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 forthwith 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 (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(p) Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given (such notice to be received by our Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise.

(r) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time and the note thereto. The capacity of the auditors of our Company or the approval independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in absence of manifest error, be final and conclusive and binding on our Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by the Board;
- (ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n), (o) or (p);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;

- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offense involving his or her integrity or honesty, or in relation to an employee of our Group (if so determined by the Board), or has been insolvent, bankrupt or has made compositions with his/her creditors generally or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

(t) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted,

shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(u) *Cancellation of Options*

Subject to paragraph (i) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any Option is cancelled pursuant to paragraph (m).

(v) Termination of the Share Option Scheme

Our Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(x) Condition of the Share Option Scheme

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in our Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the commencement of dealings in our Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within two calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) Disclosure in annual and interim reports

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(z) *Present status of the Share Option Scheme*

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in our Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 22,500,000 Shares in total.

2. Tax and other indemnities

Our Controlling Shareholders have entered into a deed of indemnity with and in favour of each member of our Company (being the contract referred to in paragraph (a) of the section headed “— Information about the Business — Summary of Material Contracts” above) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable on or before the date when the Global Offering becomes unconditional.

3. Litigation

As at the Latest Practicable Date, we were not aware of any other litigation or arbitration proceedings of material importance pending or threatened against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

4. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme).

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor’s fees are HK\$3,800,000 and are payable by our Company.

5. Preliminary Expenses

The preliminary expenses incurred and paid by our Company were approximately HK\$11,880.

6. Promoter

The Company has no promoter for the purpose of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

7. Taxation of holders of Shares**(a) Hong Kong**

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. Our Directors have been advised that no material liability or estate duty under the laws of China or Hong Kong would be likely to fall upon any member of our Group.

(b) Cayman Islands

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications or subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

8. Qualification of Experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
BOCOM International (Asia) Limited.....	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) of the regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Jun He Law Offices	PRC legal advisers
Appleby	Cayman Islands attorneys-at-law
Euromonitor	Industry consultant

9. Consents of Experts

Each of the experts named in paragraph 8 of this Appendix has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

10. Interests of experts in our Company

None of the persons named in paragraph 8 of this Appendix is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

11. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. Particulars of the Selling Shareholders

The particulars of the Selling Shareholders are set out as follows:

Name	:	Cosy Good Limited
Registered address	:	P.O. Box 957 Offshore Incorporations Centre Road Town Tortola British Virgin Islands
Number of Sale Shares to be sold	:	6,837,000
Name:	:	PCL Investment Holding Ltd
Registered address	:	171 Main Street Road Town Tortola VG1110 British Virgin Islands
Number of Sale Shares to be sold	:	8,043,000

13. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) 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;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
- (b) save as disclosed in the prospectus, there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2014 (being the date which the latest audited consolidated financial information of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (e) the principal register of members of our Company will be maintained in the Cayman Islands by Appleby Trust (Cayman) Ltd. and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Share Registrar and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (f) no company within our Group is presently listed on any stock exchange or traded on any trading system;

- (g) our Directors have been advised that under Cayman Islands Law the use of a Chinese name by our Company does not contravene Cayman Islands Law.
- (h) save as disclosed in this prospectus, our Company has no outstanding convertible debt securities or debentures.

14. Bilingual Prospectus

The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption from Companies and prospectuses from Compliance Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 9. Consents of Experts” in Appendix IV to this prospectus;
- (c) a copy of each of the material contracts referred to in the section headed “Statutory and General Information — B. Information about the Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus; and
- (d) a copy of the statement of the names, description and addresses of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Sidley Austin at 39/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the amended and restated Memorandum and Articles of Association;
- (b) the Accountants’ Report from Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the report from Ernst & Young in respect of the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the three years ended 31 December 2012, 2013 and 2014;
- (e) the letter of advice from Appleby, our Cayman Islands legal advisers, summarising the constitution of our Company and certain aspects of Cayman Companies law referred to in “Summary of the Constitution of Our Company and Cayman Company Law” in Appendix III to this prospectus;
- (f) the Cayman Companies Law;
- (g) the legal opinions issued by Jun He Law Offices, our PRC legal advisers in respect of our Group’s business operations and property interests in the PRC;
- (h) the material contracts referred to in the section headed “Statutory and General Information — B. Information about the Business — 1. Summary of Material Contracts” in Appendix IV to this prospectus;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
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- (i) service agreements with each of the Directors referred to in the paragraph headed “Statutory and General Information — C. Further Information about Directors and Substantial Shareholders — 1. Directors — (b) Particulars of Service Contracts” in Appendix IV to this prospectus;
- (j) the written consents referred to in the section headed “Statutory and General Information — D. Other Information — 9. Consents of Experts” in Appendix IV to this prospectus;
- (k) the rules of the Share Option Scheme;
- (l) the Euromonitor Report; and
- (m) a statement of particulars of the Selling Shareholders.

