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Post Hearing Information Pack of

Zhongzhi Pharmaceutical Holdings Limited
中智藥業控股有限公司

(incorporated in the Cayman Islands with limited liability)

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Zhongzhi Pharmaceutical Holdings Limited
中智藥業控股有限公司

(incorporated in the Cayman Islands with limited liability)

[REDACTED]

Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to the [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to reallocation and [REDACTED])**
Number of [REDACTED]	**:**	**[REDACTED] Shares (subject to reallocation)**
[REDACTED]	**:**	**Not more than HK$[REDACTED] per [REDACTED] and expected to be not less than HK$[REDACTED] per [REDACTED] (payable in full on application in Hong Kong dollars, subject to refund, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)**
Nominal value	**:**	**HK$0.01 per Share**
Stock code	**:**	**[REDACTED]**

Sole Sponsor

國信證券(香港)
GUOSEN SECURITIES (HK)

[REDACTED]

[REDACTED] [REDACTED]

[REDACTED]

[REDACTED] [REDACTED] [REDACTED]

Financial Advisor

Donvex 富域資本
Donvex Capital Limited 富域資本有限公司

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EXPECTED TIMETABLE *(Note 1)*

[REDACTED]

EXPECTED TIMETABLE *(Note 1)*

[REDACTED]

EXPECTED TIMETABLE *(Note 1)*

[REDACTED]

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SUMMARY

This summary aims to give you an overview of the information contained in this [REDACTED]. As it is a summary, it does not contain all information that may be important to you. You should read the whole [REDACTED] before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the "Risk Factors" section in this [REDACTED]. You should read that section carefully in full before you decide to invest in the [REDACTED].

BUSINESS OVERVIEW

We are principally engaged in pharmaceutical manufacturing in the PRC and the operation of chain pharmacies in Zhongshan in the Guangdong province, the PRC. We develop, manufacture and sell (i) Chinese patent medicines; and (ii) decoction pieces including both traditional decoction pieces and modern decoction pieces. Our products are sold under our core brands of "Zeus (中智)", "Liumian* (六棉牌)" and "Caojinghua* (草晶華)". According to the Ipsos Report, our "Zeus (中智)" chain pharmacies are the largest self-operated pharmaceutical chain in Zhongshan in terms of the number of pharmacies and revenue for three consecutive years from 2012 to 2014. As at the Latest Practicable Date, we have 201 self-operated chain pharmacies selling both our own-branded products and over 5,000 types of other pharmaceutical products, healthcare products and medical devices sourced from independent suppliers. During the Track Record Period, all our revenue was generated in the PRC. For each of the three years ended 31 December 2014, our revenue derived from the Guangdong province represented approximately 72.8%, 71.9% and 65.8% of our total revenue, respectively.

During the Track Record Period, we maintained satisfactory growth in both revenue and gross profit. Our total revenue and gross profit grew at a CAGR of approximately 20.5% and 30.3% respectively. On the other hand, our gross profit margin also increased from approximately 46% to 49.6% and 53.8% for each of the three years ended 31 December 2014, respectively. Our Directors believe that our success was mainly attributed to the well established reputation of our own brands for quality products.

Our business segments

The table below sets forth our revenue by business segment and the percentage of total revenue for each business segment and their respective gross profit margin during the Track Record Period:

	For the year ended 31 December								
	2012			2013			2014		
	Revenue	% of total revenue	Gross profit margin	Revenue	% of total revenue	Gross profit margin	Revenue	% of total revenue	Gross profit margin
	RMB'000		%	RMB'000		%	RMB'000		%
Pharmaceutical manufacturing	172,240	42.0	50.3	207,262	42.9	52.6	294,840	49.5	58.6
Operation of chain pharmacies	237,812	58.0	42.9	275,543	57.1	47.3	300,725	50.5	49.0
Total	410,052	100.0	46.0	482,805	100.0	49.6	595,565	100.0	53.8

Note: Our own-branded products are sold under both of our business segments.

Our products

As at the Latest Practicable Date, we sold 35 types of own-branded Chinese patent medicines (of which 27 types are OTC medicines) and 158 types of own-branded decoction pieces in the PRC market. Seven of our own-branded Chinese patent medicines are protected by invention patents (發明專利). For the year ended 31 December 2014, the sales of own-branded products accounted for approximately 61.5% of our total revenue and had a gross profit margin of approximately 61.9%. Our major own-branded Chinese patent medicines include Cough Tablets* (克咳片), Cool Lozenges* (清涼喉片) and Yinhuang Granules* (銀黃顆粒). We attribute our satisfactory operating performance to our commitment to the research and development of new products. With an aim to enhance the functional effectiveness of traditional decoction pieces and for consumption

convenience, we have developed our patented techniques for the production of modern decoction pieces, which was launched in the PRC market in 2011 and have received positive market response. Our modern decoction pieces are granules of ultra-fine pulverised decoction pieces, which can be readily used for oral consumption. For each of the three years ended 31 December 2014, revenue derived from the sales of our modern decoction pieces accounted for approximately 5.5%, 13.6% and 26.3% of our total revenue, respectively.

The following table sets forth our revenue from pharmaceutical manufacturing by product category and the percentage of revenue from this segment for each product category during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Chinese patent medicines	157,289	91.3	158,575	76.5	159,614	54.2
Decoction pieces						
— Traditional decoction pieces	2,463	1.4	2,326	1.1	3,325	1.1
— Modern decoction pieces	12,488	7.3	46,361	22.4	131,901	44.7
Total revenue from pharmaceutical manufacturing	172,240	100.0	207,262	100.0	294,840	100.0

In 2011, the GFDA gave consent to Zhongzhi Herb Pieces the status of modern decoction pieces pilot production enterprises* (中藥破壁飲片試點生產企業). During the pilot period, Zhongzhi Herb Pieces is required to conduct researches on the clinical safety assessment and production quality control on modern decoction pieces and submit the relevant research reports. Our pilot production status of modern decoction pieces may be terminated or subject to any prohibition, restrictions, limitation or suspension. Please refer to the paragraph headed "Risk Factors — Our status of modern decoction pieces pilot production enterprise may be subject to revocation, termination, suspension or alteration any time by the relevant authorities in the PRC" in this [REDACTED].

Our pricing policy

We generally price both our own-branded products and non-own branded products on a cost plus basis with reference to the prevailing market conditions such as demands from customers, pricing and availability of comparable products in the market. During the Track Record Period, over 800 types of our non-own branded products and 18 types of our own-branded products were included in the National Medical Insurance Drugs Catalogue or Provincial Medical Insurance Drugs Catalogue, and/or National List of Essential Drugs and were subject to PRC government's price control policies. For each of the three years ended 31 December 2014, we recorded revenue of approximately RMB152.8 million, RMB167.2 million and RMB171.5 million from the sale of these products, which accounted for approximately 37.3%, 34.6% and 28.8% of our total revenue, respectively. The PRC government's price control policies did not have material adverse impact on our Group during the Track Record Period. Pursuant to the Drug Pricing Reform Notice, price controls on all pharmaceutical products except for anesthetics and some types of psychiatric drugs were lifted with effect from 1 June 2015. Accordingly, all our own-branded and non-own branded products are not subject to government price control.

Our production plants and production capacity

We produce all our own-branded products in our two GMP certified production plants in Zhongshan with an aggregate gross floor of approximately 46,700 sq.m. The following table sets forth information on the designed capacity, actual production volume and utilisation rates of our production facilities for each of the three years ended 31 December 2014, respectively:

		For the year ended 31 December								
		2012			2013			2014		
	Unit	Designed capacity *(Note 1)*	Production volume	Utilisation rate *(Note 2)*	Designed capacity *(Note 1)*	Production volume	Utilisation rate *(Note 2)*	Designed capacity *(Note 1)*	Production volume	Utilisation rate *(Note 2)*
		(approximate unit)	(approximate unit)		(approximate unit)	(approximate unit)		(approximate unit)	(approximate unit)	
Chinese patent medicines										
Granule[(Note 3)]	bag	270,000,000	234,184,000	87%	270,000,000	214,228,000	79%	270,000,000	191,824,000	71%
Capsule	capsule	140,000,000	113,107,000	81%	140,000,000	134,928,000	96%	140,000,000	126,091,000	90%
Tablet	tablet	1,280,000,000	1,046,442,000	82%	1,280,000,000	1,074,688,000	84%	1,280,000,000	993,597,000	78%
Oral solution[(Note 4)]	bottle	15,000,000	9,642,000	64%	15,000,000	10,965,000	73%	15,000,000	16,026,000	107%
Tea bag[(Note 3)]	bag	5,300,000	4,800,000	91%	5,300,000	3,382,000	64%	5,300,000	3,501,000	66%
Decoction pieces										
Traditional decoction pieces	tonnes	2,561	2,264	88%	2,561	2,353	92%	2,561	2,540	99%
Modern decoction pieces[(Note 5)]	tonnes	53	30	57%	159	75	47%	212	165	78%

Notes:

(1) Designed capacity is computed based on 252 effective production days per year and one shift of seven hours per day for each of the three years ended 31 December 2014.

(2) Utilisation rate is calculated by dividing the production volume by the designed capacity.

(3) The utilisation rates for granules and tea bags for the two years ended 31 December 2014 were relatively lower than that of 2012. This reflected the decrease in the production volume of less popular Chinese patent medicines which were in the form of granules and tea bags.

(4) The actual production activities for oral solution in 2014 were conducted occasionally over seven hours per day to meet the demand for the relevant products, which resulted in the utilisation rate for oral solution in 2014 exceeded 100%.

(5) The utilisation rate related to the production of modern decoction pieces decreased from 57% for the year ended 31 December 2012 to 47% for the year ended 31 December 2013, primarily due to the increase in the designed capacity resulting from the acquisition of one jet stream ultra-fine pulverisation machine and one granulating machine in 2013.

Research and Development

As at the Latest Practicable Date, we had 29 invention patents (發明專利), one utility model patent (實用新型專利) and 15 design patents (外觀設計專利) registered in the PRC, 12 patents registered in Hong Kong and Macau, and 33, six and 20 patent applications submitted for and pending registration in the PRC, Taiwan and Hong Kong, respectively. We have developed and maintained a pool of 125 types of new pharmaceutical products, which have been approved for production by the relevant authorities but yet to be launched in the market. For each of the three years ended 31 December 2014, our research and development expenses amounted to approximately RMB10.8 million, RMB14 million and RMB11.2 million, respectively. Our pipeline products under research and development are mainly new types of Chinese patent medicines for various curative functions and modern decoction pieces to be made of different types of Chinese herbs for health maintenance. As at the Latest Practicable Date, 18 types of modern decoction pieces were awaiting approval from the GFDA and one type of Chinese patent medicine was undergoing phase IIa of clinical trial.

In recognition of our strong research and development capability, in April 2014, we were approved by the State Administration of Traditional Chinese Medicine of the PRC (國家中醫藥管理局) to set up a State-level laboratory for the development of the techniques and applications of modern decoction pieces. Each of our production plants in Zhongshan has been accredited as High and New Technology Enterprise* (高新技術企業) since 2003 and 2008 respectively.

OUR SUPPLIERS

Our suppliers mainly include suppliers of Chinese herbs, packaging materials and ancillary materials for our pharmaceutical manufacturing as well as suppliers of non-own branded products for sale in our chain pharmacies. All our supplies are sourced in the PRC except a small amount of American ginseng from Canada. We entered into master agreements with some of our suppliers to ensure a reliable supply of goods which meet our quality standards. Purchases from our top five suppliers amounted to approximately RMB65.2 million, RMB89.3 million and RMB88.7 million, representing approximately 30%, 36.5% and 40% of our total costs of purchase for each of the three years ended 31 December 2014, respectively.

OUR DISTRIBUTION CHANNEL AND CUSTOMERS

We sell and distribute own-branded products through our self-operated chain pharmacies in Zhongshan and an extensive distribution network comprising distributors and independent chain pharmacies covering 30 provinces, autonomous regions and municipality cities in the PRC. As at 31 December 2014, we sold to 381 independent chain pharmacies and had a total of 1,111 distributors which were categorised as (i) contractual distributors; and (ii) non-contractual distributors. We entered into distribution agreements with our contractual distributors and master agreements with independent chain pharmacies to ensure that they adhere to our sales policy. The major terms of these agreements include our restriction on distribution territories and the minimum prices set by us for their resale of our products.

The following table sets forth a breakdown of our total revenue by different distribution channels, their respective percentage to total revenue and gross profit margin during the Track Record Period:

	For the year ended 31 December								
	2012			2013			2014		
	RMB'000	% of revenue	Gross profit margin (%)	RMB'000	% of revenue	Gross profit margin (%)	RMB'000	% of revenue	Gross profit margin (%)
Our self-operated chain pharmacies *(Note 1)*	237,812	58.0	42.9	275,543	57.1	47.3	300,725	50.5	49.0
Distributors *(Note 2)*									
— contractual *(Note 3)*	81,394	19.8	44.2	84,478	17.5	46.1	90,234	15.2	50.4
— non-contractual	61,038	14.9	56.5	69,478	14.4	55.6	57,156	9.6	54.7
Independent chain pharmacies *(Note 2)*	29,808	7.3	54.2	53,306	11.0	58.7	147,450	24.7	65.2
Total	410,052	100.0	46.0	482,805	100.0	49.6	595,565	100.0	53.8

Notes:

1. Revenue generated from our self-operated chain pharmacies represented sales of both our own-branded products and non-own branded products.
2. Revenue generated from distributors and independent chain pharmacies represented sales of our own-branded products.
3. Revenue generated from contractual distributors represented our sales to upper-level distributors as we do not sell directly to lower-level distributors.

With respect to our contractual distributors, we maintain a two-level distribution model which comprises upper-level and lower-level distributors. This enables us to reduce the inherent credit risk and save our delivery resources as our sales are made directly to upper-level distributors who are well established and reputable pharmaceutical distributors and wholesalers in the PRC. Our upper-level distributors in turn sell and deliver our products to lower-level distributors who had entered into distribution agreements with us. Our non-contractual distributors are responsible for the distribution of a pool of our own-branded products which are not distributed by our contractual distributors or independent chain pharmacies. Although we do not enter into any distribution agreements with our non-contractual distributors, our sales and marketing team will closely monitor the sales of our products and check the selling prices in the market in order to reduce the risk of potential competition against themselves and to ensure that they do not sell our products below our desired retail prices. We require that all our distributors and independent chain pharmacies are GSP certified.

The following table sets forth the number of our contractual and non-contractual distributors and their relevant movements during the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
Contractual distributors			
Upper-level			
At the beginning of the period	62	59	70
Added during the period	13	22	7
Termination during the period *(Note)*	16	11	9
At the end of the period	59	70	68
Lower-level			
At the beginning of the period	355	270	502
Added during the period	154	316	209
Termination during the period *(Note)*	239	84	256
At the end of the period	270	502	455
Non-contractual distributors			
At the beginning of the period	220	690	633
Added during the period	567	276	279
Termination during the period *(Note)*	97	333	324
At the end of the period	690	633	588
Total at the end of the period	1,019	1,205	1,111

Note: Termination of contractual and non-contractual distributors during the Track Record Period was primarily due to their failure to meet our sales target; suspension or termination of their GSP certifications; or mergers and consolidation of the distributors.

Our major customers during the Track Record Period included major pharmaceutical companies such as Guangdong Dongguan Guoyao Group Co., Ltd.* (廣東省東莞國藥集團有限公司), Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司), and major independent chain pharmacies such as Yunnan Hongxiang Yixintang Pharmaceutical Co., Ltd.* (雲南鴻翔一心堂藥業(集團)股份有限公司). Sales to our top five customers amounted to approximately RMB35.3 million, RMB42 million and RMB81.1 million, representing approximately 8.5%, 8.7% and 13.7% of our total revenue for each of the three years ended 31 December 2014, respectively.

COMPETITIVE STRENGTHS

We believe that the following are our key competitive strengths that have contributed to our success and distinguish us from our competitors:

- "Zeus (中智)" is a well established brand in the pharmaceutical industry
- We have strong marketing capabilities and an extensive distribution network
- We are able to generate high profit margin from our own-branded modern decoction pieces
- We maintain a stringent quality control system
- We have strong research and development capabilities
- We have an experienced and committed management team

BUSINESS STRATEGIES

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

- Expand our chain pharmacies in the Guangdong province
- Expand the breadth and depth of our distribution network
- Expand our production capacity
- Further strengthen our research and development capacities and product range
- Further strengthen our brand recognition and awareness by enhancing our marketing and promotional activities

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. Lai, Mrs. Lai, Crystal Talent and Cheer Lik. Immediately after completion of the Capitalisation Issue and the [REDACTED], our Controlling Shareholders will own approximately 65.67% of the total issued share capital of our Company (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme). We operate independently of our Controlling Shareholders. Please refer to the "Relationship with Our Controlling Shareholders" section in this [REDACTED] for details.

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth a summary of our financial information for the Track Record Period and should be read in conjunction with our financial information included in the Accountants' Report, including the notes thereto:

Selected information from combined statements of profit or loss

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Revenue	410,052	482,805	595,565
Cost of sales	(221,365)	(243,430)	(275,290)
Gross profit	188,687	239,375	320,275
Other income and gains	7,370	5,383	6,528
Selling and distribution expenses	(121,904)	(142,326)	(148,747)
Administrative expenses	(35,258)	(38,881)	(50,196)
Other expenses	(11,152)	(15,364)	(12,048)
Finance costs	(4,294)	(1,384)	(1,002)
Profit before tax	23,449	46,803	114,810
Profit for the year	17,254	37,638	86,688

For each of the three years ended 31 December 2014, our total revenue was approximately RMB410.1 million, RMB482.8 million and RMB595.6 million, respectively and the profit attributable to our Company's equity holders was approximately RMB17.3 million, RMB37.6 million and RMB86.7 million, respectively. The increasing trend of our total revenue and profit attributable to our Company's equity holders was primarily driven by the rising demand on pharmaceutical products.

Our gross profit margin increased from 46% for the year ended 31 December 2012 to 49.6% for the year ended 31 December 2013, and further to 53.8% for the year ended 31 December 2014, due to the increased sales of our own-branded products, which have higher gross profit margin than non-own branded products.

For each of the three years ended 31 December 2014, we recognised government grants of approximately RMB6 million, RMB3 million and RMB4.1 million respectively as other income in connection with the government support to our research and development projects as well as our business expansion. These government grants represented approximately 34.7%, 8% and 4.7% of our net profit for the respective year. As at 31 December 2014, government grants of approximately RMB15.1 million were recorded as deferred income, of which approximately RMB6 million will be recognised as other income for the year ending 31 December 2015 and the remaining balance will be recognised in financial years from 2016 to 2018.

Please refer to the paragraph headed "Financial Information — Management discussion and analysis" in this [REDACTED] for further details.

Selected information from combined statements of financial position

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Non-current assets	91,440	98,835	107,547
Current assets	148,181	200,039	190,377
Current liabilities	139,537	157,766	163,631
Net current assets	8,644	42,273	26,746
Total assets less current liabilities	100,084	141,108	134,293
Net assets	92,571	130,210	120,897

Key Financial Ratios

	As at or for the year ended 31 December		
	2012	2013	2014
Gross profit margin	46.0%	49.6%	53.8%
Net profit margin	4.2%	7.8%	14.6%
Current ratio	1.1	1.3	1.2
Quick ratio	0.5	0.6	0.6
Gearing ratio	27.0%	12.3%	12.4%
Debt to equity ratio[(Note)]	—	—	—
Interest coverage	6.5 times	34.8 times	115.6 times
Return on equity	18.6%	28.9%	71.7%
Inventory turnover days	65.0	71.9	60.5
Trade and notes receivables turnover days	50.6	49.0	39.8
Trade payables turnover days	43.0	39.2	32.8

Note: We had a net cash position as at each of the three years ended 31 December 2014.

Please refer to the paragraphs headed "Financial Information — Major financial ratios" and "Financial Information — Description of certain items from our combined statements of financial position" in this [REDACTED] for further discussion on the above ratios and turnover days.

RECENT DEVELOPMENT

Based on our unaudited management accounts, the unaudited revenue and gross profit for the four months ended 30 April 2015 was higher than those for the four months ended 30 April 2014.

As at the date of this [REDACTED], we had obtained the business licence for the production and distribution of food products and relevant food production licences for the manufacturing of three kinds of food products, namely the granulated siraitia grosvenorii (羅漢果), granulated rose petals and granulated Chinese hawthorn (山楂). We had also completed the set up of a new production line for the manufacturing of food products in our Zhongshan production base. The capital expenditure for the acquisition of the machineries for such food products was approximately RMB8.9 million. We had commenced to manufacture small quantities of food products, which had been launched in our self-operated chain pharmacies in June 2015 to test the market response. Based on the market response, we will formulate our sales and marketing strategy and gradually roll out our food products. We intend to sell these products in our self-operated chain pharmacies and supermarkets in the PRC.

HISTORICAL NON-COMPLIANCE

During the Track Record Period, our Group was subject to administrative penalties by the Zhongshan Food and Drug Administration for the production and sale of sub-standard products namely "Ganoderma" (靈芝) and "Agarwood" (沉香). We were fined for a total amount of approximately RMB4,300 and confiscated the amount and products for a total sum of approximately RMB3,000. After these incidents, we have strengthened our quality control to ensure compliance with the prevailing standards set out in the prevailing Chinese Pharmacopoeia before we commence production and perform a second quality check on the products before we launched them in the market. Our Directors confirm that apart from the above incidents, no penalties had been imposed on us by the relevant food and drug administration authorities in the PRC during the Track Record Period and up to the Latest Practicable Date.

Our PRC subsidiaries (being Zhongzhi Pharmaceutical, Zhongzhi Chain Pharmacies, Zhongzhi Herb Pieces and Honeson Pharmaceutical) did not make adequate contributions to the social insurance fund and housing provident fund for our employees during the Track Record Period. From 1 July 2014 onwards, our PRC subsidiaries have been paying adequate contributions to the social insurance fund and housing provident fund for our employees. Furthermore, we have made provisions for the underpaid social insurance fund contributions and housing provident fund contributions of approximately RMB1.9 million, RMB1.9 million and RMB0.5 million for each of the three years ended 31 December 2014, respectively. As at the Latest Practicable Date, we did not receive any notifications from the relevant government authorities requiring us to make the outstanding social insurance fund and housing provident fund contributions. Our PRC Legal Advisors are of the view that (i) the non-compliance relating to such underpaid contributions is not material to our Group; and (ii) the risks of being penalised for such historical non-compliances are low in practice. For details, please refer to the paragraph headed "Business — Legal proceedings and non-compliance" in this [REDACTED].

[REDACTED] EXPENSES

The total estimated [REDACTED] expenses in connection with the [REDACTED] (including underwriting commission) was approximately RMB[REDACTED], assuming the [REDACTED] is not exercised and based on the mid-point of the indicative [REDACTED] range. For the year ended 31 December 2014, our Group incurred [REDACTED] expenses of approximately RMB[REDACTED], of which RMB[REDACTED] was charged to profit and loss and the remaining RMB[REDACTED] was recognised as prepayment. For the year ending 31 December 2015, we estimate that the [REDACTED] expenses to be incurred will amount to RMB[REDACTED], of which RMB[REDACTED] will be charged to profit and loss in the year and the remaining RMB[REDACTED] will be charged against equity upon successful [REDACTED] under relevant accounting standards.

NO MATERIAL ADVERSE CHANGE

The total indebtedness of our Group, as at 30 April 2015, being the latest practicable date for determining the amount of our indebtedness in this [REDACTED], was approximately RMB15 million. Our Directors confirm that since 31 December 2014 and up to the date of this [REDACTED], there has been no material adverse change in the financial or trading position or prospects of our Group and there is no event which would materially affect the information shown in our combined financial statements included in the Accountant's Report.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the [REDACTED] of approximately HK$[REDACTED] (assuming the [REDACTED] is not exercised and an [REDACTED] of HK$[REDACTED], being the mid-point of the indicative [REDACTED] range of HK$[REDACTED] to HK$[REDACTED] per [REDACTED]), after deducting the underwriting fees and commissions and estimated expenses payable by the Company in connection with the [REDACTED].

We intend to use the net proceeds we will receive from the [REDACTED] for the following purposes:

Approximate percentage or amount of net proceeds	Intended application
[REDACTED] or HK$[REDACTED]	Expansion of our pharmaceutical chain in the Guangdong province
[REDACTED] or HK$[REDACTED]	Expansion of our distribution network
[REDACTED] or HK$[REDACTED]	Provide funding for our research and development activities
[REDACTED] or HK$[REDACTED]	Expansion of our production capacity
[REDACTED] or HK$[REDACTED]	Working capital and other general corporate purposes

In the event that the [REDACTED] is exercised in full and the [REDACTED] is set at the low-end or high-end of the indicative [REDACTED] range, the net proceeds from the [REDACTED] will decrease or increase by approximately HK$[REDACTED]. Under such circumstances, we will adjust our allocation of the net proceeds in the same proportion as set out above.

Please refer to the "Future Plans and Use of Proceeds" section in this [REDACTED] for further details.

DIVIDEND POLICY

Dividends may be paid by way of cash or by other means we consider appropriate. For each of the three years ended 31 December 2014, our Group declared dividends of nil, nil and RMB96 million, respectively. The dividends declared during the year ended 31 December 2014 had been fully paid by the end of September 2014. Our Group further declared and paid out a dividend of approximately RMB30 million in April 2015. Payment of any future dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors consider relevant.

[REDACTED]

RISK FACTORS

Our business is subject to a number of risks, including but not limited to risks relating to our business, industry, region in which we operate, and the [REDACTED]. We believe a few of the more significant risks we face include:

- Our success is dependent on our core brand of "Zeus (中智)" and any negative publicity of "Zeus (中智)" would adversely affect our operating results and financial condition.
- Our revenue was mainly generated from the Guangdong province, the PRC. Any adverse change in the economic, political or social conditions in the region may materially and adversely affect our business, financial condition and results of operations.
- Our gross profit margin in the future may be adversely affected if the proportion of the sales of our own-branded products in the PRC market decreases.
- We may not be able to maintain our historical growth rates and our results of operations may fluctuate significantly.
- If we are unable to develop and introduce new products or gain market acceptance of our new products, our business, financial condition and results of operations may be adversely affected.
- Our status of modern decoction pieces pilot production enterprise may be subject to revocation, termination, suspension or alteration any time by the relevant authorities in the PRC.
- We rely heavily on our distribution network comprising distributors and independent chain pharmacies for the sales of our own-branded products.
- We have limited control over our distributors.
- The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies.
- Uncertainties of the interpretation under the Draft Foreign Investment Law and the Explanatory Notes, which had been released for consultation purpose, may result in our Contractual Arrangements becoming invalid and illegal.
- Our Group relies on the Contractual Arrangements for the production of decoction pieces in China, which may not be as effective in providing operational control as direct ownership.

CONTRACTUAL ARRANGEMENTS

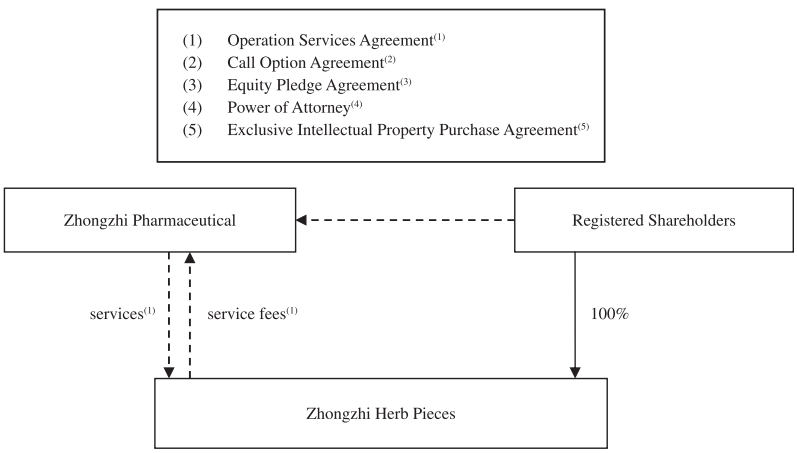
Zhongzhi Herb Pieces is a major PRC operating subsidiary of our Group. It is engaged in the production of traditional and modern decoction pieces in the PRC, of which the production techniques such as steaming, stir-frying, moxibustion and calcinations, are prohibited from foreign investment under the Foreign Investment Catalogue. As such, we are not allowed to hold any equity interest in Zhongzhi Herb Pieces under the applicable PRC laws and regulations.

In order to achieve our business purposes, the Contractual Arrangements were entered into in order for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces transferred to Zhongzhi Pharmaceutical by means of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical. Our PRC Legal Advisors are of the opinion that the Contractual Arrangements are, valid, legal and binding on the parties to the agreements under the Contractual Arrangements, save for dispute resolution clauses of the Contractual Arrangements in connection with injunctive relief as disclosed in the "Contractual Arrangements" section in this [REDACTED].

On 19 January 2015, MOFCOM released the Draft Foreign Investment Law and the Explanatory Notes for public consultation. The Draft Foreign Investment Law introduced the concept of "control" and "actual control" of an enterprise.

If the concept of "actual control" is applied in assessing whether the Contractual Arrangements will be regarded as a domestic investment, our PRC Legal Advisors are of the view that our Company is likely to be deemed as controlled by Chinese investors based on our Company's shareholding structure, where Mr. Lai, being a Chinese investor, indirectly held approximately 80.52% shareholding interest through Crystal Talent as at the Latest Practicable Date and approximately 60.39% shareholding interest after completion of the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme). As such, the Contractual Arrangements are likely to be deemed as a domestic investment and to be permitted to continue. For details of the Draft Foreign Investment Law and its potential impact on our Company, please refer to the paragraph headed "Contractual Arrangements — Legality of the Contractual Arrangements — The Draft Foreign Investment Law and the Explanatory Notes" in this [REDACTED].

The following diagram illustrates the operation of the Contractual Arrangements which results in the flow of all economic benefits from Zhongzhi Herb Pieces to our Group stipulated under the Contractual Arrangements:



Please refer to the "Contractual Arrangements" section in this [REDACTED] for details.

Notes:

(1) Pursuant to the Operation Services Agreement, Zhongzhi Pharmaceutical was engaged exclusively to provide Zhongzhi Herb Pieces with, *inter alia*, management and consultancy services in consideration of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical.

(2) Pursuant to the Call Option Agreement, the Registered Shareholders have granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their entire equity interests in Zhongzhi Herb Pieces according to the terms contained therein.

(3) Pursuant to the Equity Pledge Agreement, the Registered Shareholders have pledged their entire equity interests in Zhongzhi Herb Pieces (together with the rights derived therefrom) in favour of Zhongzhi Pharmaceutical as security for the performance of all the contractual obligations by Zhongzhi Herb Pieces and the Registered Shareholders under the Operation Services Agreement, the Call Option Agreement, the Power of Attorney and the Exclusive Intellectual Property Purchase Agreement.

(4) Pursuant to the Power of Attorney, the Registered Shareholders jointly and severally and irrevocably appointed Zhongzhi Pharmaceutical as their attorney to exercise their shareholders' rights in Zhongzhi Herb Pieces.

(5) Pursuant to the Exclusive Intellectual Property Purchase Agreement, Zhongzhi Herb Pieces and the Registered Shareholders jointly and severally granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any of the intellectual property that Zhongzhi Herb Pieces has according to the terms contained therein.

(6) "—" denotes direct legal and beneficial ownership in the equity interest and "- - - " denotes contractual relationship.

DEFINITIONS

In this [REDACTED], the following terms shall have the meanings set forth below unless the context otherwise requires.

"Accountants' Report"	the accountants' report set out in Appendix I to this [REDACTED]
	[REDACTED]
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company adopted on 8 June 2015 and which will become effective upon the [REDACTED], as amended from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	our board of Directors
"business day"	a day on which licenced banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	British Virgin Islands
"Capitalisation Issue"	the issue of 599,990,000 Shares made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in Appendix V headed "Statutory and General Information" to this [REDACTED]
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"CFDA"	the China Food and Drug Administration of the PRC (中華人民共和國國家食品藥品監督管理總局) and its predecessor(s)

"Cheer Lik"	Cheer Lik Development Limited, a limited liability company incorporated in the BVI on 2 January 2014 and wholly owned by Mrs. Lai, a Controlling Shareholder
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies Law"	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
"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" or "our Company"	Zhongzhi Pharmaceutical Holdings Limited (中智藥業控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 12 September 2014
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Contractual Arrangements"	the series of contracts entered into on 31 August 2014 (and supplemented or amended on 31 August 2014) by, among others, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders, details of which are described in the "Contractual Arrangements" section in this [REDACTED]
"Controlling Shareholders"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Mr. Lai, Mrs. Lai, Crystal Talent and Cheer Lik
"Crystal Talent"	Crystal Talent Investment Group Limited, a limited liability company incorporated in the BVI on 25 July 2014 and wholly owned by Mr. Lai, a Controlling Shareholder
"Director(s)"	the director(s) of our Company
"Draft Foreign Investment Law"	the draft version of the Foreign Investment Law* (中華人民共和國外國投資法（草案徵求意見稿)) issued by MOFCOM on 19 January 2015 for public consultation

"Drug Pricing Reform Notice"	the Notice on Issuing the Opinions on Promoting the Drug Pricing Reform* (《關於印發推進藥品價格改革意見的通知》) jointly issued by the CFDA, MOF, MOFCOM, NDRC, NHFPC, Ministry of Human Resources and Social Security and Ministry of Industry and Information Technology on 4 May 2015
"EIT"	enterprise income tax of the PRC
"EIT Law"	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得税法)
"Explanatory Notes"	the explanatory notes accompanied to the Draft Foreign Investment Law issued by MOFCOM on 19 January 2015
"Foreign Investment Catalogue"	the Catalogue for the Guidance of Foreign Investment Industries (Revised in 2015) (《外商投資產業指導目錄(2015年修訂)》)
"GFDA"	the Guangdong Food and Drug Administration of the PRC (中華人民共和國廣東省食品藥品監督管理局) and its predecessors
	[REDACTED]
"Grant Talent"	Grant Talent Development Limited, a limited liability company incorporated in Hong Kong on 1 August 2014 and an indirect wholly owned subsidiary of our Company
	[REDACTED]
"Group", "our Group", "we" or "us"	our Company and its subsidiaries or, where the context requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, the entities which carried on the business of the present Group at the relevant time
"Guangdong Jun Ke"	Guangdong Jun Ke Investment Limited* (廣東君科創業投資有限公司), a limited liability company established in the PRC on 8 April 2010 and a shareholder of Zhongzhi Herb Pieces. The shareholding structure of which is set out in the paragraph headed "History and Corporate Structure — Offshore reorganisation"

"Guosen Securities", "Sole Sponsor"	Guosen Securities (HK) Capital Company Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
	[REDACTED]
	[REDACTED]
"HK$" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Honeson Pharmaceutical"	Zhongshan Honeson Pharmaceutical Co., Ltd.* (中山市恒生藥業有限公司) (formerly known as Shiqi Herbal Tea Factory* (石岐涼茶廠) and Zhongshan Chinese Medicine Factory* (中山市中藥廠)), a limited liability company established in the PRC on 2 March 1986 and an indirect wholly owned subsidiary of our Company
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
	[REDACTED]
	[REDACTED]

"Hong Kong Share Registrar"	[REDACTED], the Hong Kong branch share registrar of our Company
"[REDACTED] Underwriters"	the underwriters of the [REDACTED] listed in the "Underwriting" section in this [REDACTED]
"[REDACTED] Underwriting Agreement"	the conditional [REDACTED] underwriting agreement dated 29 June 2015 relating to the [REDACTED] and entered into by, among others, the Sole Sponsor, the [REDACTED], the [REDACTED] Underwriters, our Company, Crystal Talent, Cheer Lik and the executive Directors, as further described under the "Underwriting" section in this [REDACTED]
"Independent Third Party(ies)"	an individual(s) or company(ies) who or which is/are not connected (within the meaning of the Listing Rules) with any Directors, chief executive or substantial shareholder(s) (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associate(s)

[REDACTED]

[REDACTED]

"[REDACTED] Underwriters"	the underwriters of the [REDACTED]
"[REDACTED] Underwriting Agreement"	the conditional [REDACTED] underwriting agreement relating to the [REDACTED], expected to be entered into, among others, the [REDACTED], the [REDACTED] Underwriters, our Company, Crystal Talent, Cheer Lik, and the executive Directors as further described in the "Underwriting" section in this [REDACTED]

"Ipsos"	Ipsos Hong Kong Limited, a market research firm and an Independent Third Party
"Ipsos Report"	the industry report commissioned by our Company and issued by Ipsos Hong Kong Limited
	[REDACTED]
	[REDACTED]
	[REDACTED]
"Latest Practicable Date"	[REDACTED], being the latest practicable date prior to the printing of this [REDACTED] for ascertaining certain information contained herein
	[REDACTED]
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
	[REDACTED]
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company adopted on 8 June 2015
"Ministry of Health"	Ministry of Health of the PRC (中華人民共和國衛生部)
"modern decoction pieces"	a modern form of decoction pieces produced, distributed and sold by our Group, where ultra-fine pulverised traditional decoction pieces are granulated by using our patented techniques and can be readily used for oral consumption

"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Cao"	Mr. Cao Xiao Jun (曹曉俊), an executive Director and a Shareholder through his interest in Advance Keypath Global Investments Limited
"Mr. Lai"	Mr. Lai Zhi Tian (賴智填), a Controlling Shareholder and an executive Director of our Group
"Mr. Luo"	Mr. Luo Tian Quan (羅天泉), a Shareholder through his interest in Aces Chess Global Limited
"Mr. Wen"	Mr. Wen Ke Huan (温科煥), a holder of 53% equity interest in Guangdong Jun Ke
"Mrs. Lai"	Ms. Jiang Li Xia (江麗霞), the spouse of Mr. Lai, a Controlling Shareholder and an executive Director
"Ms. Mou"	Ms. Mou Li (牟莉), an executive Director and a Shareholder through her interest in Advance Keypath Global Investments Limited
"Ms. Zhang"	Ms. Zhang Shao Jun (張少君), a holder of 47% equity interest in Guangdong Jun Ke
"NDRC"	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"Negative List"	The Catalogue of Special Administrative Measures that will be published by the State Council under the Draft Foreign Investment Law and are expected to list the industrial sectors in two categories: (i) the "prohibited" category in which foreign investment is completely prohibited; and (ii) the "restricted" category in which foreign investment is subject to various restrictions
"NHFPC"	National Health and Family Planning Commission of the PRC (國家衛生和計劃生育委員會), which succeeded the Ministry of Health

"Non-competition Deed"	the Deed of Non-competition dated 8 June 2015 given by the Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), details of which are set out in the "Relationship with the Controlling Shareholders" section in this [REDACTED].
	[REDACTED]
	[REDACTED]
	[REDACTED]
"PRC" or "China"	People's Republic of China which, for the purposes of this [REDACTED] only, exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Advisors"	King & Wood Mallesons, a qualified PRC law firm acting as the PRC legal advisors to our Company for the application for the [REDACTED]
	[REDACTED]

[REDACTED]

"Registered Shareholders"	the shareholders of Zhongzhi Herb Pieces, being Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo, all of whom are parties to the Contractual Arrangements
"Regulation S"	Regulation S under the U.S. Securities Act
"Reorganisation"	the corporate reorganisation of our Group in preparation for the [REDACTED] as described in Appendix V headed "Statutory and General Information" to this [REDACTED]
"Repurchase Mandate"	the general unconditional mandate to repurchase Shares given to our Directors by our Shareholders, further details of which are contained in Appendix V headed "Statutory and General Information" to this [REDACTED]
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAT"	State Administration of Taxation (中華人民共和國國家税務總局) of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with nominal value of HK$0.01 each in the share capital of our Company
"Share Option Scheme"	the share option scheme conditionally adopted by our Company on 8 June 2015, a summary of the principal terms and conditions of which is set forth in Appendix V headed "Statutory and General Information" to this [REDACTED]
"Shareholder(s)"	holder(s) of the Share(s)

[REDACTED]

[REDACTED]

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has/have the meaning ascribed thereto under the Listing Rules
"substantial shareholder(s)"	has/have the meaning ascribed thereto under the Listing Rules
"Track Record Period"	the three years ended 31 December 2014
"traditional decoction pieces"	the traditional form of decoction pieces processed and distributed by our Group or used by our Group for production of Chinese patent machines and modern decoction pieces
"Underwriters"	collectively, the [REDACTED] Underwriters and the [REDACTED] Underwriters, whose names are set out in the "Underwriting" section in this [REDACTED]
"Underwriting Agreements"	the [REDACTED] Underwriting Agreement and [REDACTED] Underwriting Agreement
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
"US$" or "US dollars"	United States dollars, the lawful currency of the United States of America

[REDACTED]

[REDACTED]

"Zeus Hong Kong"	Zeus Medicine Hong Kong Limited, a company incorporated with limited liability in Hong Kong on 14 April 2011 and an indirect wholly owned subsidiary of our Company
"Zhongshan Yu Xin"	Zhongshan Yu Xin Investment Limited* (中山市禹鑫股權投資有限公司), a limited liability company established in the PRC on 17 September 2012 and a shareholder of Zhongzhi Herb Pieces. The shareholding structure of which is set out in the "History and Corporate Structure" section in this [REDACTED]

"Zhongzhi Chain Pharmacies"	Zhongshan Zhongzhi Chain Pharmacies Company Limited* (中山市中智大藥房連鎖有限公司), a limited liability company established in the PRC on 27 July 2001 and an indirect wholly owned subsidiary of our Company
"Zhongzhi Food"	Zhongshan Zhongzhi Food Technology Company Limited* (中山市中智食品科技有限公司), a limited liability company established in the PRC on 10 December 2014 and an indirect wholly owned subsidiary of the Company
"Zhongzhi Herb Pieces"	Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd.* (中山市中智中藥飲片有限公司), a limited liability company established in the PRC on 10 June 2001, the equity interest of which was owned as to 87.56%, 10%, 2% and 0.44% by Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo respectively, a consolidated affiliate of our Company
"Zhongzhi Pharmaceutical"	Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd.* (中山市中智藥業集團有限公司) (formerly known as Zhongshan Pharmaceutical Management Company* (中山市醫藥經營公司) and Zhongshan Zhongzhi Pharmaceutical Company Limited (中山市中智醫藥有限公司)), a limited liability company established in the PRC on 5 March 1993 and an indirect wholly owned subsidiary of our Company
"sq.m."	square metre(s)
"%"	per cent.

The English names of the PRC entities, laws or regulations or government authorities mentioned in this [REDACTED] and marked with "" are translation or transliteration from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese names shall prevail.*

Unless otherwise expressly stated or the context otherwise requires, all data in this [REDACTED] is as at the Latest Practicable Date.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms, definitions and abbreviations used in this [REDACTED] in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

"CAGR"	compound annual growth rate
"decoction pieces"	processed Chinese herbs which can be used in prescribed formulas for preparing Chinese patent medicines or for making soups as a means of diet therapy
"Chinese patent medicine(s)"	readily processed Chinese medicines in various intake forms (such as pills, granules and soft capsules) based on the nature and functions of traditional Chinese medicines and seven out of 35 of our Group's own-branded Chinese patent medicines are protected by invention patents (發明專利)
"Chinese Pharmacopoeia"	the Pharmacopoeia of the PRC (中國藥典), compiled by the Pharmacopoeia Commission of the Ministry of Health of the PRC, is an official compendium of drugs covering traditional Chinese medicine and western medicines and giving information on, among others, the standards of purity, description, test, dosage, precaution, storage, for each drug
"Drug Standards"	Drug Standards of the Ministry of Health of the PRC (部頒標準)
"GDP"	gross domestic product
"GMP" or "Good Manufacturing Practice"	Good Manufacturing Practice, which are guidelines and regulations from time to time issued by the PRC government to ensure that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled in conformity to the quality and standards appropriate for their intended use
"GSP" or "Good Supply Practice"	Good Supply Practice, which are guidelines and regulations issued by the PRC government as part of quality assurance to ensure that pharmaceutical distribution enterprises distribute pharmaceutical products in compliance with those guidelines and regulations

"licensed pharmacist"	pharmaceutical technical personnel who passed the uniform examinations organised by the PRC government and obtained the specialised technical pharmacist qualification certificate and practise in, among others, pharmaceutical manufacturing and distribution
"National List of Essential Drugs"	the National Essential Drugs List (國家基本藥物目錄), issued by the Ministry of Health, as amended, supplemented or otherwise modified from time to time
"National Medical Insurance Drugs Catalogue"	a catalogue of the list of pharmaceutical products under the National Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance of the PRC (國家基本醫療保險、工傷保險和生育保險藥品目錄) as determined by the PRC government for general application throughout the PRC, as amended, supplemented or otherwise modified from time to time
"oral solution"	a form of medicine in which the medicine is dissolved in liquid and to be taken orally
"OTC medicines" or "over-the-counter medicines"	medicines which may, upon receiving CFDA approval, be sold over the counter in the PRC at pharmacies or other retail outlets without requiring a prescription by a qualified medical practitioner
"Pharmaceutical Manufacturing Permit"	the permit (藥品生產許可證) issued by the CFDA at provincial level which shall be obtained by all enterprises that are engaged in the manufacture of pharmaceutical products in the PRC
"prescription medicine(s)"	medicines which are sold to consumers according to prescription from healthcare professionals
"Provincial Medical Insurance Drugs Catalogue"	the basic medical insurance, work injury insurance and maternity insurance drugs catalogue, issued by the provincial, municipal or autonomous region's human resources and social security agency
"tablet(s)"	dose of medicines in the form of small pellets
"traditional Chinese medicines"	medicines where the active ingredients come from or are derived from natural plants, animals or minerals according to traditional Chinese medicine theory and practice

FORWARD-LOOKING STATEMENTS

This [REDACTED] contains forward-looking statements, including, without limitation, words and expressions such as "anticipate", "believe", "could", "expect", "going forward", "intend", "may", "plan", "seek", "will", "would" or similar words or statements, in particular, in the sections headed "Business" and "Financial information" in this [REDACTED] in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on various assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this [REDACTED] and the following:

(a) our business and operating goals and strategies and our ability to implement them;

(b) our operation and business prospects;

(c) our financial condition and performance;

(d) our planned use of proceeds;

(e) availability of bank loans and other form of financing;

(f) changes in policies, legislation, regulations, or practices in those countries or territories in which we operate that may affect our business operations;

(g) future developments in the competitive markets of our industry and actions of our competitors;

(h) the regulatory environment for our industry in general;

(i) changes in economic conditions and competition in the areas in which we operate, including a downturn in general economy;

(j) catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters; and

(k) other factors beyond our control.

Purchasers of the [REDACTED] are cautioned that reliance on any forward-looking statements involves risks and uncertainties. The uncertainties in this regard include, but are not limited to, those identified in the "Risk Factors" section in this [REDACTED], many of which are not within our control. Other sections of this [REDACTED] also include additional factors that could adversely impact our business and financial performance. Moreover, we operate in an evolving

environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. In light of these and other uncertainties, the inclusion of forward looking statements in this [REDACTED] should not be regarded as representations by our Group or our Directors that our plans or objectives will be achieved. If any or all of these risks or uncertainties materialise, or the underlying assumptions prove to be incorrect, our financial condition may be materially and adversely affected and actual outcomes may differ materially from those described in this [REDACTED] as anticipated, believed, estimated or expected. Although our Directors believe that our current views as reflected in these forward-looking statements based on currently available information are reasonable, we give no assurance that those views will prove to be correct, and the investors are cautioned not to place undue reliance on such statements.

Subject to the requirements of applicable laws, rules and regulations and the Listing Rules, we do not have any obligation to update or otherwise revise the forward-looking statements in this [REDACTED], whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this [REDACTED] might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this [REDACTED] are qualified by reference to the cautionary statements set out in this section. In this [REDACTED], unless otherwise stated, statements of or references to our intentions or those of any of our Directors are made as at the date of this [REDACTED]. Any such intentions may change in light of future developments.

Prospective investor should consider carefully all the information set forth in this [REDACTED] and, in particular, should consider the following risks before making any investment decision in relation to the [REDACTED]. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospect of our Group. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our success is dependent on our core brand of "Zeus (中智)" and any negative publicity of "Zeus (中智)" would adversely affect our operating results and financial condition.

The principal trademark of our Group is "Zeus (中智)". All our chain pharmacies are operated under the "Zeus (中智)" brand, which has gained strong market recognition in Zhongshan. On the other hand, most of our own-branded products are sold under our core brand of "Zeus (中智)". During the Track Record Period, our own-branded products accounted for approximately 55.2%, 56.6% and 61.5% of our total revenue for each of the three years ended 31 December 2014, respectively. Our Directors take the view that the business growth depends heavily on the public perception of our brand and anticipate that we will continue to rely on the "Zeus (中智)" brand in our operations in the future.

If there are any claims against us which would adversely affect our brand image or public perception of the "Zeus (中智)" brand (such as any legal or administrative proceedings whatsoever against us relating to any alleged inferior quality of our own-branded products or other non-own branded products sold at our chain pharmacies), regardless of whether the claims are meritless or unfounded, it may damage our corporate image. Further, handling such proceedings and their respective consequences could be costly and would divert our management's attention from our business. Once our corporate image and/or our brand reputation are impaired, our results of operation and our financial condition could be adversely affected.

Our revenue was mainly generated from the Guangdong province, the PRC. Any adverse change in the economic, political or social conditions in the region may materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we derived a majority of our revenue from the Guangdong province. For each of the three years ended 31 December 2014, revenue derived from the Guangdong province amounted to approximately RMB298.5 million, RMB347.3 million and RMB391.8 million, representing approximately 72.8%, 71.9% and 65.8% of our total revenue, respectively. Our sales in the Guangdong province may be affected by a number of factors and many of which are beyond our control. Examples of such factors include changes in the laws and regulations governing the pharmaceutical industry as promulgated by the national, provincial or local government, changes in local customer preference and spending patterns, natural disasters or

any other adverse change in the economic, political or social conditions. If any of these factors occur, our business, financial condition and results of operations could be materially and adversely affected.

Our gross profit margin in the future may be adversely affected if the proportion of the sales of our own-branded products in the PRC market decreases.

During the Track Record Period, our overall gross profit margin increased continuously from 46% to 53.8% as we increased the proportion of sales of our own-branded products, in particular, the modern decoction pieces. For each of the three years ended 31 December 2014, the proportion of sales of our own-branded products accounted for approximately 55.2%, 56.6% and 61.5% of our total revenue, respectively. Our own-branded modern decoction pieces are manufactured by mainly using our patented techniques, which enable us to achieve higher gross profit margins than non-own branded products. For details of the gross profit margin for our products, please refer to the paragraph headed "Financial Information — Cost of sales, gross profit and gross profit margin" in this [REDACTED]. If the proportion of sales of our own-branded products falls due to changes in market demand for our products or if we cannot develop and launch any new product for sale on a timely basis, it is likely that our overall gross profit margin would be adversely affected.

We may not be able to maintain our historical growth rates and our results of operations may fluctuate significantly.

You should not rely on our historical operating results as an indication of our future performance. From 2012 to 2014, our revenue grew from approximately RMB410.1 million to approximately RMB595.6 million, representing a CAGR of 20.5%, and our net profit grew from approximately RMB17.3 million to approximately RMB86.7 million, representing a CAGR of approximately 123.9%. Our operating results may fluctuate significantly as a result of many factors which are outside of our control. These factors include, but not limited to:

- the success of our marketing and brand building efforts;
- the timing and market acceptance of our new products;
- fluctuations in demand for our products as a result of, among others, changes in our or our competitors' pricing policies and our customers' preferences; and
- the amount and timing of capital and other expenditures relating to the maintenance and expansion of our businesses.

These and other factors may slow down our revenue and profit growth, and may also cause significant fluctuation of our operating results.

Any prolonged or significant disruption to our manufacturing operations may materially and adversely affect our business, financial condition and results of operation.

All of our own-branded products are manufactured in our own facilities in Zhongshan. A smooth and uninterrupted manufacturing operation is crucial to our business, which is subject to a number of risks, including but not limited to:

- machinery breakdowns or sub-standard performance of our manufacturing equipment;
- the possibility of accidents which may result in fires, explosions and other potentially dangerous situations;
- the possibility of natural disasters or other unanticipated catastrophic events, including power interruptions, water shortages, storms, fires, earthquakes, terrorist attacks and wars, which may significantly disrupt or even halt our manufacturing capabilities; and
- shortages of skilled personnel to operate our manufacturing equipment and maintain our production processes.

The occurrence of any of the above may severely disrupt our manufacturing operations. Any prolonged or significant disruption to our manufacturing operations may have a material adverse effect on our business, financial condition and results of operation.

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

For each of the three years ended 31 December 2014, revenue from our own-branded products amounted to approximately RMB226.5 million, RMB273.4 million and RMB366.1 million, representing approximately 55.2%, 56.6% and 61.5% of our total revenue, respectively. In order to sustain our business growth, we have to remain competitive in the pharmaceutical industry by introducing new products to the market.

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

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

Our status of modern decoction pieces pilot production enterprise may be subject to revocation, termination, suspension or alteration any time by the relevant authorities in the PRC.

In 2011, the GFDA gave consent to Zhongzhi Herb Pieces the status of modern decoction pieces pilot production enterprise* (中藥破壁飲片試點生產企業) to conduct researches on the clinical safety assessment and production quality control on modern decoction pieces. Our Directors believe that this status provides us a competitive edge in that we are the pioneer in the development of the quality standards of modern decoction pieces. However, the consent letter did not set out when the pilot period will be ended. Hence, there is no assurance that such pilot status of Zhongzhi Herb Pieces will not be subject to any possible termination, prohibition, restrictions, limitation or suspension measures imposed by competent authorities in the future. For each of the three years ended 31 December 2014, revenue derived for the sale of our modern decoction pieces accounted for approximately 5.5%, 13.6% and 26.3% of our Group's total revenue, respectively. If our pilot production status is terminated or under any restriction or if other manufacturers are granted with similar pilot production status for the production of other forms of modern decoction pieces, our competitive edge in the pharmaceutical industry will be threatened and our business and operations will be adversely affected.

We rely heavily on our distribution network comprising distributors and independent chain pharmacies for the sales of our own-branded products.

For each of the three years ended 31 December 2014, approximately 42%, 42.9% and 49.5% of our total revenue was generated from the sales to our distributors (including both contractual and non-contractual distributors) as well as independent chain pharmacies. We therefore rely heavily on distributors and independent chain pharmacies for the distribution of our own-branded products. There is no assurance that (i) we will not lose any of our distributors and/or independent chain pharmacies in the future; or (ii) we are able to renew the distribution agreements with our contractual distributors and/or master agreements with independent chain pharmacies on favourable terms or at all; or (iii) our distributors and/or independent chain pharmacies will continue to place orders with us; or (iv) their future orders will remain at a comparable level or on similar terms as in prior years. These events may occur if we fail to maintain good business relationships with them or they switch to purchase similar products from other pharmaceutical companies, which are capable of providing them with more preferential selling terms and arrangements (such as rebates or sales commission). If any of these events occurs or if we are unable to identify and appoint additional or replacement distributors or independent chain pharmacies on a timely basis, our financial condition and results of operation could be adversely affected.

We have limited control over our distributors.

We enter into distribution agreements with our contractual distributors, whereby we can manage their sales of our products, in respect of, *inter alia*, selling price, sales volume and geographical coverage through the terms of distribution agreements.

However, we cannot assure you that these distributors will comply with our contractual terms at all times. If any of them distributes our products outside our designated territories or below our specified minimum sales price, our business, financial condition and results of operations could be adversely affected.

For our non-contractual distributors who are mainly smaller-sized local distributors, we do not enter into distribution agreement with them. As such, we can only rely on a series of measures in managing the performance of these non-contractual distributors, such as tracking where each batch of our products are sold through the product serial numbers labelled thereon. In the event that our products are distributed outside the regions as agreed with us, it may result in potential competition with other non-contractual distributors and our business, financial condition and results of operations could be adversely affected.

If we are unable to procure adequate supply of Chinese herbs for the manufacturing of our own-branded products at acceptable prices and of good quality in a timely manner, our profitability may be negatively affected.

Our pharmaceutical manufacturing business depends on our ability to obtain sufficient quantities of raw materials at acceptable prices and of good quality in a timely manner. Our major raw materials for our pharmaceutical manufacturing are Chinese herbs, which accounted for approximately 10.8%, 13% and 14.5% of the total cost of sales during the Track Record Period respectively. The availability and prices of different kinds of Chinese herbs depend on a number of factors, many of which are beyond our control, such as climate, seasonal factors, general economic conditions, prevailing market demand and supply, and environmental and conservation regulations. We cannot assure you that we will be able to secure sufficient supplies of these Chinese herbs for our production, or that the prices for these raw materials will be reasonable. Our profit margin is, to a certain extent, dependent on our ability to pass the increase in Chinese herbs costs to customers. Any lack of supply or increase in the costs of raw materials, which cannot be fully shifted to our customers would materially and adversely affect our business, financial condition and results of operations.

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

We are exposed to the risks of product liability claims as a result of producing, marketing, promoting and selling pharmaceutical products in the PRC. Such claims may arise when our products are found to be unsafe, ineffective, defective or our product labelling is improper, insufficient or provides inadequate warnings or insufficient or misleading disclosures of side effects. We do not maintain product liability insurance. Any claims against us or product recalls may cause significant damages to our Group. We may also have to spend significant resources and time to defend ourselves if legal proceedings for product liability are brought against us. In such event, our business reputation, financial condition and results of operations could be adversely affected.

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

Our success depends to a large extent on our ability to protect our intellectual property rights, including trademarks, patents, knowhow and design. In this respect, we rely on registration of trademarks, obtaining patents for our proprietary techniques, knowhow and design and contractual provisions to protect our intellectual property rights. We have certain trademarks and patents registered in the PRC, Hong Kong and Macau. For further information of our trademarks and patents, please refer to the paragraph headed "Further Information about our Business — Intellectual property rights" in Appendix V headed "Statutory and General Information" to this [REDACTED].

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

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

Any significant increase in rental and/or our failure to renew the lease agreements of the properties where our chain pharmacies are operated would materially and adversely affect our business and results of operations.

Save for one pharmacy, all our pharmacies are operated in the properties leased by us in Zhongshan, for which we enter into lease agreements with Independent Third Party landlords. The rentals for such properties are generally subject to the then prevailing market conditions in Zhongshan. As at the Latest Practicable Date, there are a total of 28 lease agreements of the properties where our chain pharmacies are operated which would expire by 31 December 2015. We cannot assure you that we will be able to renew these lease agreements on favourable terms or at all, which may require us to pay higher rental costs to maintain our business operations. If we fail to renew these lease agreements at terms acceptable to us, we have to close down the relevant pharmacy and look for properties in the vicinity for relocation. As a result, we have to bear all relocation costs, renovation costs and other expenses incurred. We may also lose the customer base we had built up through these pharmacies.

We may face difficulties when we implement our plan in expanding our chain pharmacy outside Zhongshan.

We have been operating chain pharmacies in Zhongshan since 2001. Going forward, we intend to expand our chain pharmacy into other cities in the Guangdong province.

If we expand our chain pharmacy outside Zhongshan, we may face difficulties posed by the new markets due to differences in consuming power, spending habit of the local people and regulatory environment in the new markets. Hence, we cannot assure you that we will be successful in materialising all the anticipated benefits in the opening of new chain pharmacies.

There is no assurance that those permits or certifications which are necessary for our operation can be successfully renewed.

We have obtained all relevant permits, licences and GMP certifications required for our pharmaceutical manufacturing. We have also obtained all relevant permits, licences and GSP certifications for the operation of our chain pharmacies business. These permits and licences held by us are generally valid for a maximum period of five years and are subject to periodic renewal

and/or reassessment by the relevant PRC governmental authorities. We intend to apply for the renewal of these permits, licences and certifications when required by applicable laws, rules and regulations. However, the standards of such renewal or reassessment may change from time to time. There is no assurance that we will be able to successfully renew all of these permits, licences and certifications upon their expiry in the future. Any inability to renew any permits, licences or certifications that are material to our operations may severely disrupt, as well as prevent us from conducting, our business. Furthermore, if any interpretation or implementation of the relevant regulations or new regulations requires us to obtain additional permits, licences or certifications, there is no assurance that we will successfully obtain them in the future. Even if we obtain such permits, licences or certifications, there may be significant additional costs and expenses involved, which may materially and adversely affect our financial condition and results of operation.

Moreover, we are subject to regular inspections, examinations, inquiries and audits by the regulatory authorities as part of the process of maintaining or renewing the various permits, licences and certifications required for the sale and manufacturing of pharmaceutical products. In the event that any of our products or facilities fail such inspections, our reputation, business, financial condition and results of operation may be materially and adversely affected.

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

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

Pursuant to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), the Product Quality Law of the PRC (《中華人民共和國產品質量法》), and the Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》), and other relevant laws and regulations, should our own-branded products lead to any injury, death or property damage due to product defects, we may be subject to fines, suspension of operations, revocation of our business licences and GMP certificates, or in extreme situations, criminal liability, which could have a material adverse effect on our reputation and brand value, and in turn materially and adversely affect our business, financial condition and results of operations. For details of the relevant laws and regulations governing our business, please refer to the "Regulation" section in this [REDACTED].

For the non-own branded products we sourced from other parties, should such products lead to any injury, death or property damage due to product defects, we may be subject to, among others, compensation claims from consumers. Though we require the suppliers of our chain pharmacies (including manufacturers and distributors of the non-own branded products) to enter into quality assurance agreements with us before we purchase from them, we cannot assure you that we can claim full reimbursement or recover all losses and damages from our suppliers or manufacturers, which in turn would materially and adversely affect our business, financial condition and results of operations.

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

Each of Zhongzhi Herb Pieces and Honeson Pharmaceutical was accredited as a High and New Technology Enterprise since 2003 and 2008, respectively. These accreditations are subject to review and approval by the tax authorities every three years. Under the EIT Law and its relevant regulations, High and New Technology Enterprise is conferred with a preferential income tax rate of 15% (reduced from the unified enterprise income tax rate of 25% under the EIT Law). The current status of Zhongzhi Herb Pieces and Honeson Pharmaceutical as High and New Technology Enterprise and their entitlement to the reduced EIT rate will expire in 2017. There is no assurance that we can obtain approval from the local tax authority to renew our High and New Technology Enterprise status or the PRC policies on preferential tax treatments will not change. If we lose such status or such change occurs, the resulting increase in our tax liability would have an adverse effect on our net profits and cash flow. For the impact of the increase in the EIT rate on our results of operations, please refer to the sensitivity analysis of EIT rate in the paragraph headed "Financial Information — Principal factors affecting our results of operations — Taxation" in this [REDACTED].

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

As a reputable pharmaceutical company in Zhongshan, we have been receiving government grants from the Guangdong provincial government and Zhongshan municipal government for our continuous effort in research and development of pharmaceutical products as well as the expansion of our business operations. As at each of the three years ended 31 December 2014, government grants of approximately RMB8.6 million, RMB11.4 million and RMB15.1 million were recognised as deferred income, respectively. For each of the respective periods, we recognised government grants of approximately RMB6 million, RMB3 million and RMB4.1 million as other income in the combined statements of profit or loss, respectively.

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

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

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

We may be subject to additional social insurance fund and housing provident fund contributions and late payments and fines imposed by relevant governmental authorities.

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例), we are required to make social insurance fund contributions and housing provident fund contributions for our employees.

Due to administrative oversight, our PRC subsidiaries (namely, Zhongzhi Pharmaceutical, Zhongzhi Chain Pharmacies, Zhongzhi Herb Pieces and Honeson Pharmaceutical) did not make adequate contributions to the social insurance fund and housing provident fund for our employees during the Track Record Period.

For each of the three years ended 31 December 2014, we have made provision in the sum of approximately RMB1.9 million, RMB1.9 million and RMB0.5 million for the underpaid social insurance fund contribution and housing provident fund contributions, respectively. However, the relevant authorities may impose fines on us for not paying the social insurance amount according to applicable PRC laws and regulation. For further details, please refer to the paragraph headed "Business — Legal proceedings and non-compliance" in this [REDACTED].

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

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

Furthermore, we have not purchased any insurance to cover risks relating to the Contractual Arrangements as such coverage is generally not readily obtainable from insurance providers. There is no assurance that we will be able to continue to operate our Contractual Arrangements, and if such risk materialises, we may suffer substantial losses for which we do not have insurance coverage.

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

We rely on the experience of our management team and our business may be severely disrupted if we lose their services.

Our Group's success has been, and will be, dependent on the continuing service of our management team as well as our ability to attract, motivate and retain such key personnel. Our Board is led by Mr. Lai, our chairman and executive Director, who has over 30 years of experience in the pharmaceutical industry and is responsible for formulation of the overall business strategy and direction of our Group. All members of our senior management team had played a significant role in the business operations of our Group during the Track Record Period and will continue to play a pivotal role in the future growth and success of our business. Further information about our management skills and experience of our Directors and our senior management is set out in the "Directors and Senior Management" section in this [REDACTED].

There is no assurance that our Directors and our senior management will continue to perform as well as they did so in the past, or we will be able to retain their services when their contracts expire. If any of our Directors or members of our senior management team is unable or is unwilling to continue to serve his/her current position and we may not be able to recruit suitable replacement personnel with similar qualifications or talents in a timely manner, it may cause disruption to our business operation and may have an adverse impact on our ability to manage our business effectively and efficiently. As a result, our profitability and results of operations may be adversely affected.

RISKS RELATING TO OUR CONTRACTUAL ARRANGEMENTS

The PRC government may determine that the Contractual Arrangements are not in compliance with applicable PRC laws, rules, regulations or policies.

Under current PRC laws and regulations, foreign ownership in PRC entity engaged in the production of decoction pieces business is prohibited. As our Company is a Cayman Islands incorporated company, it is classified as a foreign enterprise under the PRC laws and regulations. Accordingly, our subsidiaries in the PRC are unable to obtain the necessary licences to engage in the production of decoction pieces in the PRC. To comply with PRC laws and regulations, our Group conducts its production of decoction pieces in the PRC through the Contractual Arrangements. For details, please refer to the "Contractual Arrangements" section in this [REDACTED].

We have been advised by our PRC Legal Advisors that as at the Latest Practicable Date, each of the Contractual Arrangements is legal, valid and binding on the parties thereto, and there is no relevant laws or regulations specifically disallow foreign investors from using any agreements or contractual arrangements to gain control of or operate a foreign prohibited business such as the production of decoction pieces. However, the PRC government may determine that these contractual arrangements are not in compliance with the licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future, or that the Contractual Arrangements may be effectively enforced without limitation. We cannot rule out the possibility that the PRC government may restrict or impose additional requirements regarding overseas listing of PRC companies engaging in decoction pieces production by way of contractual arrangements in the future.

If the Contractual Arrangements are adjudicated to be in violation of any applicable PRC laws, rules or regulations, the relevant regulatory authorities would have broad discretion in dealing with such violations, including revoking the business and operating licences of Zhongzhi Herb Pieces, imposing economic penalties, imposing conditions or requirements with which our Group may not be able to comply, requiring our Group to restructure the relevant ownership structure or operations, taking other regulatory or enforcement actions that could adversely affect the business of our Group. Any of these actions could have a material adverse impact on our Group's business, prospect, financial condition and results of operation.

Uncertainties of the interpretation under the Draft Foreign Investment Law and the Explanatory Notes, which had been released for consultation purpose, may result in our Contractual Arrangements becoming invalid and illegal.

The Draft Foreign Investment Law introduced the concept of "actual control" on a PRC domestic enterprise whereby a domestic enterprise if, actually controlled by a "foreign investor" through contractual arrangements, shall be regarded as a "foreign-invested enterprise" and such foreign-invested enterprise is restricted or prohibited from investment in certain industries listed on the Negative List unless permission from the competent authority in the PRC is obtained.

Whilst the Draft Foreign Investment Law had been released for consultation purpose, the interpretation of which and its Explanatory Notes is still uncertain. We cannot assure that under the Draft Foreign Investment Law, the status of Zhongzhi Herb Pieces would be interpreted as a domestic enterprise by reason that it is actually controlled by Mr. Lai, a Chinese national, who is both the legal representative of Zhongzhi Herb Pieces and the Controlling Shareholder as well as an executive Director. Furthermore, the issues as to the level of "actual control" for being qualified as a domestic enterprise, how existing domestic enterprises which are operated by foreign investors under the contractual arrangements are to be handled and what business will be respectively classified as "restricted business" or "prohibited business" in the Negative List, are yet to be clarified at this stage.

Hence, if the Draft Foreign Investment Law is to be interpreted in the most stringent way to the effect that Zhongzhi Herb Pieces is not regarded as a domestic enterprise; and the production of decoction pieces falls into the scope of foreign prohibited business on the Negative List, our Contractual Arrangements will be regarded as invalid and illegal. As a result, our Group would not be able to manufacture decoction pieces through the Contractual Arrangements with Zhongzhi Herb Pieces. For details of the Draft Foreign Investment Law and the Negative List and its potential impact on our Company, please refer to the paragraph headed "Contractual Arrangements — Legality of the Contractual Arrangements — The Draft Foreign Investment Law and the Explanatory Notes" in this [REDACTED].

Certain terms of the Contractual Arrangements may not be enforceable under the PRC laws.

Each of the agreements under the Contractual Arrangements contains a dispute resolution provision pursuant to which all disputes arising from the Contractual Arrangements shall be resolved by arbitration and the arbitral body may award remedies over the equity interests or land or other assets of Zhongzhi Herb Pieces, make injunctive relief or order the winding up of Zhongzhi Herb Pieces. However, as advised by our PRC Legal Advisors, the arbitral body may not be able to make injunctive relief or winding up orders according to the PRC laws and arbitration rules. If Zhongzhi Pharmaceutical cannot be awarded injunctive relief or winding up order, the interest of Zhongzhi Pharmaceutical in Zhongzhi Herb Pieces will be adversely affected.

Our Group relies on the Contractual Arrangements for the production of decoction pieces in China, which may not be as effective in providing operational control as direct ownership.

To comply with PRC laws and regulations on decoction pieces production, our Group is engaged in the production of decoction pieces in the PRC through the Contractual Arrangements. The Contractual Arrangements may not be as effective in providing our Group with control over Zhongzhi Herb Pieces as direct ownership. If we had equity ownership of Zhongzhi Herb Pieces, we would be able to exercise our rights as a direct or indirect shareholder to effect changes in the board of directors of Zhongzhi Herb Pieces, which in turn could effect changes, subject to any fiduciary obligations, at the management level. However, if Zhongzhi Herb Pieces fails to perform its obligations under the Contractual Arrangements, we cannot exercise shareholders' rights to direct corporate actions as the direct ownership would otherwise entail. If the parties under the Contractual Arrangements refuse to carry out our directions in relation to everyday business operations, we will be unable to maintain effective control over the manufacturing of decoction pieces in the PRC. If we were to lose effective control over Zhongzhi Herb Pieces, certain negative consequences would result, including our being unable to control the quality of the decoction pieces to be manufactured by using our patented techniques and to consolidate the financial results of Zhongzhi Herb Pieces with our financial results. Given that revenue from our decoction pieces accounted for approximately 14.6%, 21.9% and 32.9% of our Group's total revenue for each of the three years ended 31 December 2014, respectively, our financial position would be materially and adversely impacted if we were to lose effective control over Zhongzhi Herb Pieces.

The Registered Shareholders may have conflicts of interest with us, which may materially and adversely affect our business and financial condition.

Our control over Zhongzhi Herb Pieces is based upon the Contractual Arrangements with Zhongzhi Herb Pieces and the Registered Shareholders that allow us to control Zhongzhi Herb Pieces. The Registered Shareholders are also shareholders of our Company, but the equity interests held by each of the Registered Shareholders in our Company are less than their equity interests in Zhongzhi Herb Pieces, as there are additional investors of our Company. In addition, the equity interests of the Registered Shareholders in our Company will be further diluted as a result of the [REDACTED] as well as future offerings, if any, of our Company's equity securities. Therefore, the Registered Shareholders may potentially have conflicts of interest with us, and they may breach their contracts with us, if they believe it would further their own interest or if they otherwise act in bad faith. We cannot assure you that when conflicts of interest arise between us and Zhongzhi Herb Pieces, the Registered Shareholders will act completely in our interests or that the conflicts of interest will be resolved in our favour.

We have some existing protections over potential conflicts of interest between these individuals and our Company. Pursuant to the Call Option Agreement entered into on 31 August 2014, the Registered Shareholders granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their equity interests in Zhongzhi Herb Pieces. On the same day, each Registered Shareholder has executed the Power of Attorney to appoint Zhongzhi Pharmaceutical as his/its attorney to exercise their shareholders' rights in Zhongzhi Herb Pieces.

We cannot assure you, however, that when conflicts of interest arise, the Registered Shareholders will act in the best interests of our Company or that conflicts of interest will be resolved in our favour. In the event of any such conflicts of interest, the Registered Shareholders may breach or cause Zhongzhi Herb Pieces to breach or refuse to renew the Contractual Arrangements that allow us to effectively control and receive all economic benefits from Zhongzhi Herb Pieces. If we cannot resolve any conflict of interest or dispute between us and the Registered Shareholders should it arise, we would have to rely on legal proceedings, which could result in disruption to our business and subject us to substantial uncertainty as to the outcome of any such legal proceedings. These uncertainties may impede our ability to enforce the Contractual Arrangements. If we are unable to resolve any such conflicts, or if we experience significant delays or other obstacles as a result of such conflicts, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and damage our reputation.

Our exercise of the option to acquire equity interests of Zhongzhi Herb Pieces may be subject to certain limitations and the ownership transfer may subject us to substantial costs.

Pursuant to the Contractual Arrangements, the Registered Shareholders, have jointly and severally, granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical, to purchase all or part of their equity interests in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price, and to the extent permitted by the applicable PRC laws

and regulations. If Zhongzhi Pharmaceutical cannot legally own all or part of the shares of Zhongzhi Herb Pieces due to any reason, we may not be able to exercise the option to acquire the equity interests of Zhongzhi Herb Pieces.

As advised by our PRC Legal Advisors, the Contractual Arrangements are governed by PRC law. Accordingly, the Contractual Arrangements would be interpreted in accordance with PRC law and any disputes would be finally resolved by arbitration. If Zhongzhi Herb Pieces or any of the Registered Shareholders fails to perform his/its obligations under the Contractual Arrangements, our Group may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages, which may not be effective. Uncertainties in the PRC legal system could limit the ability of our Group to enforce the Contractual Arrangements. Any inability to enforce the Contractual Arrangements or limitation thereon could disrupt the business of our Group and have a material adverse impact on our Group's business, prospects and results of operation.

RISKS RELATING TO THE PHARMACEUTICAL INDUSTRY

The pharmaceutical industry is highly fragmented and competitive.

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

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

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

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

As advised by our PRC Legal Advisors, there are currently no specific regulations governing the development and production of modern decoction pieces. Our modern decoction pieces follow the same PRC production regulations in terms of licensing and quality and standards as set out in the Chinese Pharmacopoeia or Drug Standards for traditional decoction pieces. If there are any changes in, or any promulgation of, laws, regulations or standards for traditional decoction pieces or particularly for modern decoction pieces, it may result in the increase in the costs of compliance. If we cannot change our production specifications and/or quality control system for the compliance of any new regulations and/or standards in a timely basis, our business, financial condition and results of operations will be adversely affected.

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

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

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

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

We are subject to PRC laws and regulations relating to anti-bribery and anti-corruption. These laws and regulations prohibit companies and their intermediaries from making improper payments to other parties for the purpose of obtaining or retaining business. We established anti-bribery and anti-corruption systems and work ethics standards applicable across our Group as part of our risk management and internal control measures. For further details, please refer to the paragraph headed "Business — Employees — Anti-corruption and anti-bribery policies". While we have internal controls and procedures in place to monitor strict compliance with these laws and regulations, we cannot assure you that such internal controls and procedures are sufficient to protect us from

violations, if any, committed by our employees or other parties with whom we have a business relationship. If our employees or other parties are found or alleged to be in violation of anti-bribery and anti-corruption regulations, we may face or be involved in fines, lawsuits, loss of permits and licences, closure of pharmacies, and loss of key personnel, as well as damage to our reputation, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

RISKS RELATING TO THE PRC

Uncertainties with respect to the PRC legal system could have a material adverse effect on our business and operations.

Our business is conducted, and our operations are located, in the PRC. 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 the common law system, prior cases have limited precedential value in deciding subsequent cases in the civil law legal system. Additionally, PRC written statutes are often principle oriented and require detailed interpretations by the enforcement bodies for their application and enforcement. When the PRC government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate business practices and the overall economic order 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 material adverse effect on our business and operations. Additionally, given the

involvement 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 may involve significant uncertainties under the current legal environment.

Changes in economic, political, legal and social developments and conditions in the PRC and policies adopted by the PRC government may adversely affect our business, financial condition and results of operation.

All of our operating assets are located in the PRC and all of our sales are derived from our operations in the PRC. Our business, financial condition and results of operation are subject, to a significant degree, to economic, political, legal and social developments in the PRC. The economy of the PRC differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange. The PRC economy has traditionally been centrally planned. Since 1978, the PRC government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. We believe that we have benefited from the economic reforms implemented by the PRC government and its economic policies and measures. However, there is no assurance that the PRC government will continue to pursue economic reforms. The PRC government exercises significant control over the economic growth of the PRC through allocating resources, controlling payments of foreign currency-denominated obligations, setting monetary policies and providing preferential treatments to particular industries or companies. In addition, while the PRC's economy has experienced significant growth in the last three decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business, financial condition and results of operation may be materially and adversely affected by the PRC government's political, economic and social policies, tax regulations or policies, and regulations affecting the pharmaceutical industry.

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

Any future outbreaks of severe contagious diseases in the PRC, including avian influenza, atypical pneumonia or Ebola virus disease, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, on the overall GDP growth of the PRC. As a substantial portion of our revenue is derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect our financial condition, results of operations and future growth. The spread of any severe contagious disease in the PRC may also affect the operations of our distributors and suppliers, which, again, may have a potentially adverse effect on our financial condition and results of operations.

Our Company is a holding company and our ability to pay dividends is dependent upon the earnings of, and distributions by, our subsidiaries in the PRC.

Our Company is a holding company incorporated under the laws of Cayman Islands with limited liability. All of our business operations are conducted through our subsidiaries in the PRC. Our Company's ability to pay dividends to our Shareholders is dependent upon the earnings of our subsidiaries in the PRC and their distribution of funds to our Company, primarily in the form of dividends. The ability of the subsidiaries in the PRC to make distributions to our Company depends upon, among others, their distributable earnings. Under the PRC laws, payment of dividends is only permitted out of accumulated profits according to PRC accounting standards and regulations, and subsidiaries in the PRC are also required to set aside part of their after-tax profits to fund certain reserve funds that are not distributable as cash dividends. Other factors such as cash flow conditions, restrictions on distributions contained in the PRC subsidiaries' articles of associations, restrictions contained in any debt instruments, withholding tax and other arrangements will also affect the ability of our subsidiaries in the PRC to make distributions to our Company. These restrictions could reduce the amount of distributions that our Company receives from its subsidiaries in the PRC, which in turn would restrict our ability to pay dividends on our Shares.

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

Pursuant to the EIT Law, a uniform tax rate of 25% is adopted for all enterprises, including foreign-invested enterprises, and revokes many of the previous tax exemptions, reductions and preferential treatments which were applicable to foreign-invested enterprises.

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

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

tax, such as by tax treaties or agreements. According to the Agreement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income, dividends paid by a foreign-invested enterprise to its shareholders in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interest in the PRC enterprise. If our offshore companies are deemed PRC resident enterprises, it is unclear whether the dividends we pay with respect to the Shares may be treated as income derived from sources within the PRC and be subject to PRC taxes. If we are required under the EIT Law to withhold PRC income taxes on our dividends payable to our foreign shareholders, the value of your investment in the Shares may be materially and adversely affected.

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

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

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using proceeds we receive from the [REDACTED] to make loans or additional capital contributions to our PRC subsidiaries.

As an offshore holding company of our PRC subsidiaries, our Company may make loans to our PRC subsidiaries, or our Company may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to the PRC regulations and foreign exchange loan registrations. For example, loans by our Company to our PRC subsidiaries 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 subsidiaries by means of capital contributions. These capital contributions must be approved by the Ministry of Commerce of the PRC or its local counterpart. There is no assurance that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by our Company to finance our PRC subsidiaries. If we fail to receive relevant registrations or approvals, our ability to use the proceeds of the [REDACTED] and to capitalise our PRC operations may be negatively affected. This may materially and adversely affect our liquidity and our ability to expand our business.

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 or us in the PRC any judgments obtained from non-PRC courts.

Our Company was incorporated in the Cayman Islands. A majority of our Directors reside in the PRC from time to time. Almost all of our assets, and some of the assets of our Directors are located in the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC. The PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (the "**Arrangement**"). Pursuant to this Arrangement, a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case, according to a choice of court agreement in writing, may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case, pursuant to a choice of court agreement in writing, may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in the dispute do not agree to enter into a choice of court agreement in writing. As a result, it may be difficult or impossible for investors to effect service of process against our assets or Directors in the PRC in order to seek recognition and enforcement of foreign judgments in the PRC.

Furthermore, the PRC does not have treaties or agreements providing for the reciprocal recognition and enforcement of judgments awarded by courts of the United States, the United Kingdom, or most other western countries or Japan. Hence, the recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

RISKS RELATING TO THE [REDACTED]

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

Prior to the [REDACTED], there is no public market for the Shares. The [REDACTED], and the permission to deal in, the Shares on the [REDACTED] do not guarantee the development of an active public market or the sustainability thereof following completion of the [REDACTED]. Factors such as variations in our Group's revenues, earnings, cash flows, new investments, acquisitions or alliances, regulatory developments, additions or departures of key personnel, actions taken by competitors or any other developments of our Group could cause the market price and

trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our Group's control and unrelated to the performance of our Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the [REDACTED].

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

Sales of substantial amounts of Shares in the public market after the completion of the [REDACTED], or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. Our Shares held by certain Controlling Shareholders are subject to certain lock-up periods, the details of which are set out in the "Underwriting" section in this [REDACTED]. However, there is no assurance that these Shareholders will not dispose of any Shares after the lock-up period restrictions expire.

Prior dividend distributions are not an indication of our future dividend policy and we may not be able to pay any dividends on our Shares.

During the Track Record Period, we have declared dividends of approximately nil, nil and RMB96 million, respectively. All the dividends declared during the Track Record Period had been fully settled as at the Latest Practicable Date. Our Directors may declare dividends after taking into account, among others, our results of operations, financial condition and position, the amount of distributable profits, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. For further details of our dividend policy, please refer to the paragraph headed "Financial Information — Dividend policy" in this [REDACTED]. We cannot assure when or whether we will pay dividends in the future.

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

We believe that our current cash and cash equivalents, anticipated cash flows from operations and the proceeds from the [REDACTED] will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changing business conditions or other future developments relating to our existing operations, acquisitions or strategic alliances. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

RISKS RELATING TO THIS [REDACTED]

Certain facts, forecasts and other statistics with respect to the PRC, the PRC economy and the PRC pharmaceutical industry contained in this [REDACTED] have not been independently verified.

Facts, forecasts and other statistics in this [REDACTED] relating to the PRC, the PRC economy and the PRC pharmaceutical industry have been derived from various official government and/or other research agency sources. Such information has not been prepared or independently verified by us, the Sole Sponsor, or any of our or their respective affiliates, directors or advisors and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics contained in such publications. In all cases, investors should give consideration as to how much weight or importance they should attach or place on such facts, forecasts or statistics.

Forward-looking information included in this document may not be accurate.

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

Investors should read the entire [REDACTED] carefully and we strongly caution the investors not to place any reliance on any information contained in press articles or other media regarding us and the [REDACTED], including, in particular, any projections, valuations or other forward-looking information.

Prior to the publication of this [REDACTED], there may be press and media coverage regarding us and the [REDACTED]. We have not authorised the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about ourselves or the [REDACTED], or of any assumptions underlying such projections, valuations or other forward-looking information included in or referred to by the press articles or other media. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this [REDACTED] only and not to rely on any other information.

WAIVER FROM COMPLIANCE WITH THE LISTING RULES

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

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Our headquarter is located in Zhongshan, substantially most of the business operations of our Group are located in the PRC and most of our executive Directors ordinarily reside in the PRC. We do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules, subject to us putting in place certain measures in order to ensure that effective communication is maintained between the Stock Exchange and us. For further details of such waiver, see the paragraph headed "Directors and Senior Management — Management presence" in this [REDACTED].

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which would constitute continuing connected transactions of our Company under the Listing Rules following the completion of the [REDACTED]. We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with (i) the announcement and independent shareholders' approval requirements; (ii) the annual cap requirement; and (iii) the requirement of limiting the term of the continuing connected transactions set out in Chapter 14A of the Listing Rules for such continuing connected transactions. For further details in this respect, see the "Continuing Connected Transactions" section in this [REDACTED].

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Lai Zhi Tian (賴智填)	Room 18B, Building 19, Yicuiyuan No. 28 Zimaling Road East District, Zhongshan Guangdong province, PRC	Chinese
Ms. Jiang Li Xia (江麗霞)	6605 Kitchener Street Burnaby BC V5b 2J7 Canada	Canadian
Ms. Mou Li (牟莉)	Room 804, No. E6 of Daxin Haian Jiayuan Shiqi District, Zhongshan Guangdong province, PRC	Chinese
Mr. Cao Xiao Jun (曹曉俊)	8-3-14F, Xinghaimingcheng Nanshan District Shenzhen Guangdong province, PRC	Chinese
Independent Non-executive Directors		
Mr. Ng Kwun Wan (吳冠雲)	Room 909, Hong Chung House Mei Chung Court, Tai Wai New Territories, Hong Kong	Chinese
Mr. Wong Kam Wah (黃錦華)	No. 1B, Yuen Kong San Tsuen Kam Sheung Road, Pat Heung Yuen Long, New Territories Hong Kong	Chinese
Mr. Zhou Dai Han (周岱翰)	Room 27–1112 Guangzhou University of Chinese Medicine No. 12 Baiyunjichang Road Guangzhou Guangdong province, PRC	Chinese

Note: Further information is disclosed in the "Directors and Senior Management" section in this [REDACTED].

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

PARTIES INVOLVED IN THE [REDACTED]

Sole Sponsor	**Guosen Securities (HK) Capital Company Limited** 42/F, Two International Finance Centre No. 8 Finance Street Central Hong Kong
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]

[REDACTED]	[REDACTED]
Financial Advisor	**Donvex Capital Limited** Rooms 1305–6, 13th Floor Carpo Commercial Building 18–20 Lyndhurst Terrace Central Hong Kong *(Note)*
Legal advisors to our Company	*As to Hong Kong law:* **Hastings & Co.** 5/F, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong *As to the PRC law:* **King & Wood Mallesons** 28/F, Landmark, 4028 Jintian Road Futian District Shenzhen Guangdong 518035 PRC

	As to Cayman Islands law: **Appleby** 2206–19 Jardine House 1 Connaught Place Central Hong Kong
Legal advisors to the Sole Sponsor and the [REDACTED]	*As to Hong Kong law:* **TC & Co. Solicitors** Units 2201–3, Tai Tung Building 8 Fleming Road Wan Chai Hong Kong *As to the PRC law:* **Zhong Lun Law Firm** 10/F, Tower A, Rongchao Centre 6003 Yitian Road, Futian District Shenzhen 518026 PRC
Auditors and reporting accountants	**Ernst & Young** 22nd Floor CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Property valuer	**BMI Appraisals Limited** 33rd Floor, Shui On Centre 6–8 Harbour Road Wanchai Hong Kong
Receiving bank	[REDACTED]

Note: Donvex Capital Limited ("**Donvex**") is the financial advisor to the Company in relation to the [REDACTED]. The role of Donvex was to assist our Group to communicate with professional parties and to advise the structure of the [REDACTED] and the future business development of our Group.

The role of Donvex was different from that of the Sole Sponsor in that the role of Donvex focused more on the provision of advisory services relating to the future development in business supported by the financial market; whereas the role of Sole Sponsor was to ensure the application for [REDACTED] fulfills the requirements of, *inter alia*, the Listing Rules and related requirements. The Sole Sponsor has performed its own due diligence and undertaken the overall responsibility of the [REDACTED] exercise.

CORPORATE INFORMATION

Registered address	Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Headquarter in the PRC	No. 3 Kongtai Road South Torch Development Zone Zhongshan Guangdong province PRC
Principal place of business in Hong Kong	Rooms 2102–2103 China Insurance Group Building No. 141 Des Voeux Road Central Central Hong Kong
Company website	www.zeus.cn *(The information contained on the website of our Company does not form part of this [REDACTED])*
Company secretary	Ms. Chow Fung Ling *(ACS, ACIS)* Flat C, 26th Floor, Block T7 Sky Tower, 38 Sung Wong Toi Road To Kwa Wan, Kowloon, Hong Kong
Authorised representatives	Ms. Mou Li Room 804, No. E6 of Daxin Haian Jiayuan Shiqi District, Zhongshan Guangdong province PRC Ms. Chow Fung Ling *(ACS, ACIS)* Flat C, 26th Floor, Block T7 Sky Tower, 38 Sung Wong Tai Road To Kwa Wan, Kowloon, Hong Kong
Members of the audit committee	Mr. Ng Kwun Wan *(Chairman)* Mr. Wong Kam Wah Mr. Zhou Dai Han

CORPORATE INFORMATION

Members of the remuneration committee	Mr. Wong Kam Wah *(Chairman)* Mr. Lai Zhi Tian Ms. Mou Li Mr. Ng Kwun Wan Mr. Zhou Dai Han
Members of the nomination committee	Mr. Wong Kam Wah *(Chairman)* Mr. Lai Zhi Tian Ms. Mou Li Mr. Ng Kwun Wan Mr. Zhou Dai Han
Compliance Advisor	**Guosen Securities (HK) Capital Company Limited**
Hong Kong branch share registrar and transfer office	[REDACTED]
Cayman Islands principal share registrar and transfer office	[REDACTED]
Principal banks	**China Construction Bank Corporation** Torch Development Zone Branch 1/F, Investment Mansion No. 12 Huizhan Road East Torch Development Zone Zhongshan Guangdong province PRC **Zhongshan Rural Commercial Bank Company Limited** Torch Development Zone Branch No. 2 Kangxiang Road Torch Development Zone Zhongshan Guangdong province PRC

Bank of Communications Co., Ltd.
Hong Kong Branch
20 Pedder Street
Central
Hong Kong

This section contains information extracted from publicly available government sources and the Ipsos Report. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the Underwriters, any of our or their respective affiliates, directors, officers, representatives or advisors, or any other persons or parties involved in the [REDACTED] and no representation is given as to its accuracy. The information may not be consistent with information from other sources.

REPORT COMMISSIONED FROM IPSOS

We commissioned Ipsos, an independent market research and consulting company to conduct an analysis of, and to report on the Chinese medicine market in the PRC, for a total fee of HK$458,000. The findings and analysis of the industry research are set out in the Ipsos Report.

Founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos SA acquired Synovate Ltd. in October 2011. After the combination, Ipsos becomes the third largest research company in the world which employs approximately 16,000 personnel worldwide across 85 countries. Ipsos conducts research on market profiles, market size and market share and performs segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

The information contained in the Ipsos Report is derived from data and intelligence gathering methodology which includes (i) desk research; (ii) client consultation; and (iii) primary research from interviews with key stakeholders and industry experts in the PRC, such as Chinese medicine manufacturers and retailers as well as trade associations. According to Ipsos, this methodology guaranteed a full circle/multi-level information sourcing process, where information gathered was able to be cross-referenced to ensure accuracy. The intelligence gathered by Ipsos was analysed, assessed and validated using their in-house analysis models and techniques.

The projections in the Ipsos Report are based on the assumptions that (i) the PRC economy will maintain steady growth; and (ii) there will be no adverse events, such as financial crisis or natural disasters, which will affect the demand and supply of the products of Chinese medicine industry, during the forecast period from 2014 to 2018.

Our Directors confirm that after taking reasonable care, as at the date of this [REDACTED], there has been no material adverse change in the market information since the issue date of the Ipsos Report.

THE CHINESE MEDICINE MARKET IN THE PRC

Overview

Chinese medicines have been widely used by the Chinese community for prevention and treatment of diseases as well as health enhancement for more than 2,000 years and have been increasingly popular. Consumers prefer Chinese medicines over Western medicines as Chinese medicines are perceived to have less side effects. Products of the Chinese medicine market in the PRC can be broadly classified into (i) Chinese patent medicines; and (ii) decoction pieces.

Chinese patent medicines are manufactured with Chinese herbs as major ingredients and based on the formulas as set out in the Chinese Pharmacopoeia or the Drug Standards. The products are in various forms, such as oral solutions, pills, capsules, powder and syrup.

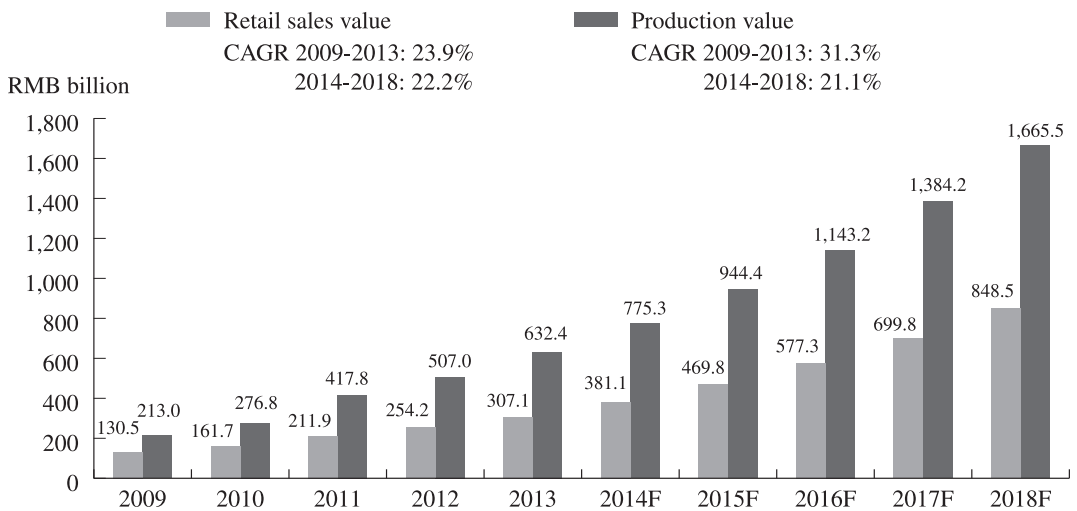
The Chinese Pharmacopeia and the Drug Standards also set out the standards of decoction pieces, including the levels of different ingredients in different types of decoction pieces. Decoction pieces can be further divided into (i) traditional decoction pieces; and (ii) modern decoction pieces. Traditional decoction pieces refer to Chinese herbs after being processed through various procedures, such as boiling, steaming, frying, chopping and slicing. These are generally used by pharmaceutical manufacturers for the production of Chinese patent medicines and consumers for making soups or cooking. According to the Ipsos Report, during the past few years, manufacturers have developed techniques such as ultra-fine pulverisation, additive-free granulation, extraction and concentration to provide various forms of modern decoction pieces. By adopting various advanced techniques, modern decoction pieces generally have higher levels of efficacy, accuracy on the dosage and consumption convenience. Modern decoction pieces mainly comprise (i) granules of cell wall-broken decoction pieces which involve the use of ultra-fine pulverisation techniques; (ii) formulation granules; and (iii) paste or syrup using extraction and concentration techniques.

Rapid growth of the Chinese medicine market in the PRC

The Chinese medicine market in the PRC has experienced rapid growth from 2009 to 2013. According to the Ipsos Report, total production value of Chinese medicines in the PRC increased from approximately RMB213 billion in 2009 to RMB632.4 billion in 2013, representing a CAGR of approximately 31.3%. The total production value of Chinese medicines is expected to further increase at a CAGR of approximately 21.2% from approximately RMB775.3 billion in 2014 to approximately RMB1,665.5 billion in 2018. Such remarkable growth is primarily driven by the increasing global demand on Chinese medicines.

Total retail sales of Chinese medicines in the PRC, which included the sales of Chinese medicines from hospitals, clinics, health centres and pharmacies to end consumers, increased from approximately RMB130.5 billion in 2009 to approximately RMB307.1 billion in 2013, representing a CAGR of approximately 23.9%. It is expected that the total retail sales of Chinese medicines will further grow at a CAGR of approximately 22.2% from approximately RMB381.1 billion in 2014 to approximately RMB848.5 billion in 2018.

Total retail sales value and production value of Chinese medicines in the PRC from 2009 to 2018



Source:

(1) 2009–2013: National Bureau of Statistics of China

(2) 2014–2018: Ipsos

Key growth factors of the Chinese medicine industry in the PRC

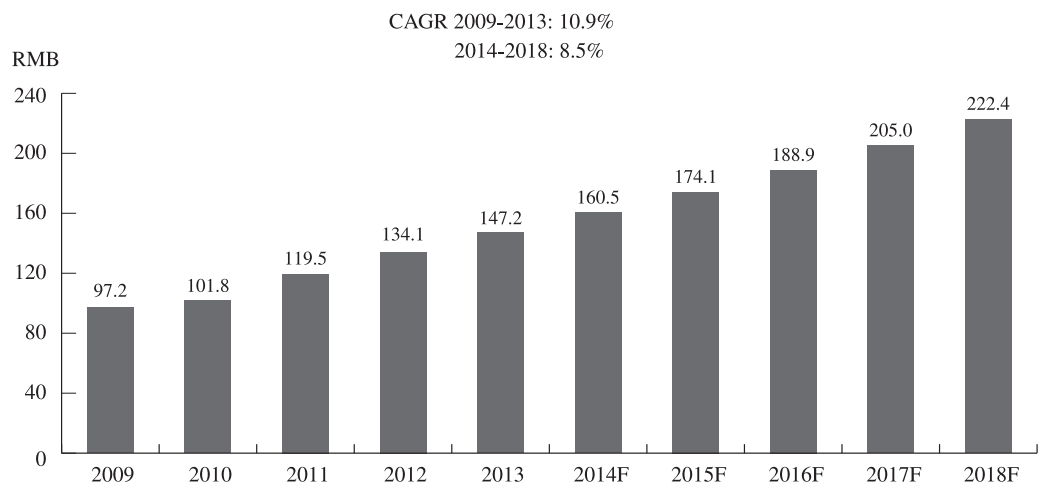
Fast growing GDP and disposable income

PRC is one of the fastest-growing economies in the world. According to the Ipsos Report, PRC was the second largest economy in the world with a GDP reaching US$9.5 trillion in 2013. Average annual per capita disposable income in the PRC increased from approximately RMB17,175 in 2009 to approximately RMB26,955 in 2013, representing a CAGR of approximately 11.9%. It is expected that the average annual per capita disposable income in the PRC will further increase at a CAGR of approximately 9.0% from approximately RMB29,516 in 2014 to approximately RMB41,664 in 2018.

Increasing health consciousness and healthcare spending

The living standards of PRC residents are gradually improving along with the economic growth and the increasing disposable income. Threatened by the outbreak of epidemics, such as avian flu, swine influenza and Ebola virus diseases, the PRC residents are getting more health-conscious and they are willing to increase their spending on pharmaceutical and healthcare products including Chinese medicines, for prevention of diseases and health improvement. According to the Ipsos Report, average annual per capita consumption expenditure on Chinese medicines in the PRC increased from approximately RMB97.2 in 2009 to RMB147.2 in 2013, representing a CAGR of approximately 10.9%. It is expected that the average annual per capita consumption expenditure on Chinese medicines in the PRC will further increase at a CAGR of approximately 8.5% from approximately RMB160.5 in 2014 to approximately RMB222.4 in 2018.

Average annual per capita consumption expenditure on Chinese medicines in the PRC from 2009–2018



Source:

(1) 2009–2013: National Bureau of Statistics of China

(2) 2014–2018: Ipsos

Growing urbanisation trend

As compared with the rural population, the PRC's urban population has greater needs for medical care services and pharmaceutical products, and hence their per capita expenditures on medical and healthcare services and products are relatively higher. According to the Ipsos Report, the average annual per capita consumption expenditure on Chinese medicines of the PRC's urban population increased from RMB145.6 in 2009 to RMB190.1 in 2013, representing a CAGR of approximately 6.9%. The urbanisation rate also grew from 48.3% in 2009 to 53.7% in 2013. It is expected that the growing urbanisation trend in the PRC will drive the demand on Chinese medicines.

Aging population

PRC has the largest elderly population (aged 60 and above) in the world according to the Ipsos Report. The PRC population aged 60 and above increased at a CAGR of approximately 1.2% from approximately 193.4 million in 2009 to 202.6 million in 2013. By the end of 2018, it is expected that the PRC population aged 60 and above will reach approximately 252.5 million in 2018, representing a CAGR of approximately 4.5% from 2014. As the elderly has a higher tendency to consume more medicines, the PRC aging population is expected to continuously drive the demand for pharmaceutical and healthcare products, including Chinese medicines.

Increasing government support related to the Chinese medicine industry

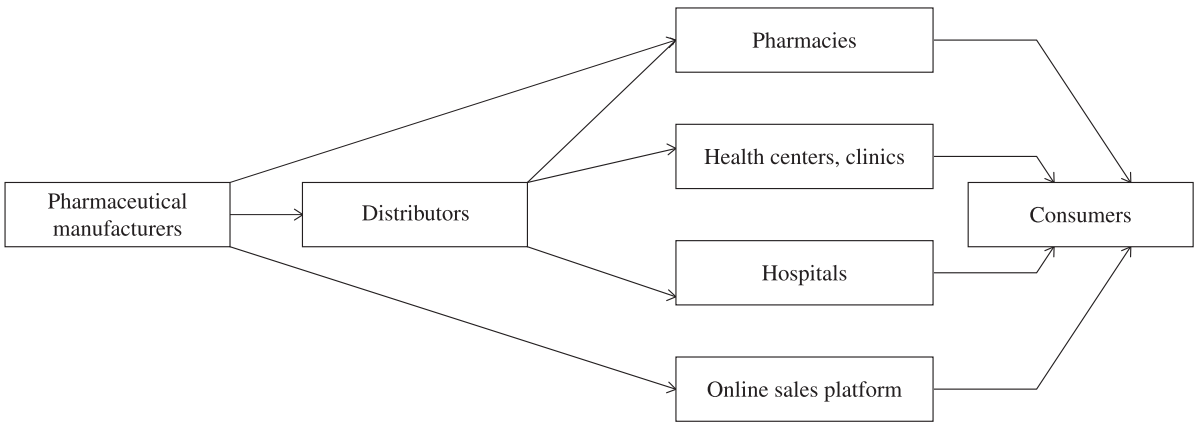
In recent years, the PRC government started to reform the national medical system by introducing a series of policies, namely (i) Opinions of the CPC Central Committee and the State Council on Deepening the Reform of the Medical and Healthcare System (中共中央國務院關於深化醫藥衛生體制改革的意見); (ii) Notice of the State Council on Issuing the Plan on Recent Priorities in Carrying out the Reform of Healthcare System (2009–2011) (醫藥衛生體制改革近期重點實施方案 (2009–2011年)); and (iii) Implementation Plan of Deepening the Medical and Healthcare System Reform during the 12th Five-Year Plan Period (「十二五期間」深化醫藥衛生體制改革規劃暨實施方案).

The medical reform aims to improve the affordability and accessibility of medical services and products in various ways, such as increasing government subsidies, building more hospitals and clinics and increasing the amount of benefits under the social medical insurance programme. The basic medical insurance plan reimburses certain costs of the medicines included in the National List of Essential Drugs. In 2013, the PRC government has broadened such list to further include 309 types of Chinese patent medicines and seven types of decoction pieces. Consequently, it is expected that the public can easily access to medical services and their relevant expenditures on medical services and products will be largely covered by the medical insurance and/or government subsidies, which will in turn increase the consumption of Chinese medicines.

Pursuant to the Drug Pricing Reform Notice, the price controls on all pharmaceutical products, except for anesthetics and some types of psychiatric drugs, were lifted from 1 June 2015. This encourages pharmaceutical manufacturers to increase the supplies of pharmaceutical products in the market.

Value chain analysis of the Chinese medicine industry in the PRC

The typical value chain of the Chinese medicine industry in the PRC comprises three main segments: (i) upstream manufacturers; (ii) pharmaceutical distributors which include upper-level distributors and lower-level distributors; and (iii) downstream customers which include hospitals, health centres, clinics and pharmacies.



Source: Ipsos

Distributors play and will continue to be an important role in the value chain of the Chinese medicines industry. This is primarily because distributors have extensive logistics network facilitating prompt delivery of Chinese medicines from thousands of manufacturers to numerous and dispersed points of sale. This can relieve the burden of manufacturers to deliver products to and collect payments from the retailers. Therefore, manufacturers can focus their resources on research and development, manufacturing and marketing of their products.

Online sales platform for pharmaceutical products has been increasingly popular, which is believed to provide a cost effective way for product promotion and penetration to the consumer market.

Key entry barriers of the Chinese medicine industry in the PRC

The key entry barriers of the Chinese medicine industry in the PRC include substantial capital investment, strong research and development capability, diversified product portfolio, good and stable product quality and extensive distribution and marketing network.

Capital investment

Chinese medicines manufacturing is a capital intensive business, which requires substantial capital investment in (i) production plants and equipments; (ii) upgrade of production facilities in order to enhance production capacity and efficiency; and (iii) research and development on new products.

Research and development capability

The future growth and prospect of a Chinese medicines manufacturer rely primarily on its research and development ability. A Chinese medicines manufacturer is required to have a competent research and development team together with sufficient resources for the development of new products, enhancement of the efficacy of existing products, and/or improvement of production methods in a cost effective and efficient manner.

Product portfolio

Chinese medicines manufacturers are required to regularly evaluate and enrich their product portfolios to maintain their competitiveness and to cater for the changing needs of consumers of different ages and consuming power.

Product quality

Product quality is crucial to consumer confidence and the continued growth of the market players in the Chinese medicines industry. In order to ensure the product quality of Chinese medicines, the PRC government has issued a series of national quality standards for the pharmaceutical industry covering various stages of the value chain from product manufacturing to sales and distribution. All pharmaceutical manufacturers are required to comply with the GMP standards, whereas all pharmaceutical distributors and operators of pharmacies are required to comply with GSP standards. For further details of the GMP and GSP standards, please refer to the "Regulation" section in this [REDACTED].

The stringent regulatory standards are expected to significantly increase the cost and difficulties of compliance and force many smaller-sized pharmaceutical companies to close down or to seek larger economies of scale through consolidation in order to lower costs and remain competitive.

Distribution and marketing network

The sales performance of Chinese medicines manufacturers is directly correlated to the level of market penetration of their products. As such, it is essential to have an extensive distribution and marketing network and long and stable business relationships with distributors, which require considerable amount of time and resources to build up and maintain.

In light of the above, the entry barrier to set up and operate a Chinese medicine manufacturing business in the PRC is considered to be high. It is difficult for new entrants to succeed within a short period of time.

Competitive landscape of the Chinese medicine industry in the PRC

According to the Ipsos Report, the Chinese medicine industry in the PRC is fragmented with different market players of various sizes. In 2013, there were more than 1,500 Chinese patent medicine manufacturers and approximately 1,900 decoction pieces manufacturers in the PRC. In terms of sales revenue, the top five manufacturers of Chinese patent medicines and decoction pieces accounted for approximately 3.9% and 5.9% of the respective total revenue in 2013. The sales revenue of Chinese patent medicines and decoction pieces of our pharmaceutical manufacturing segment accounted for less than 0.1% of the respective total revenue. On the other hand, there were approximately 433,900 pharmacies in the PRC with total sales revenue of approximately RMB255.8 billion in 2013. In terms of number of pharmacies and sales revenue, our Group's market share in the PRC was approximately 0.04% and 0.1%, respectively. Given the fragmentation of the Chinese medicine industry, manufacturers are under intense pressure to compete for business and maintain profits, and must focus on the following competitive issues:

Scale of operation and integration

In general, large-scale manufacturers enjoy cost advantages from economies of scale through bulk purchase of raw materials and mass production. Furthermore, these manufacturers would have more resources for business expansion through vertical and/or horizontal integrations. These may involve the establishment of their own Chinese herbs plantation bases, distribution networks and/or chain pharmacies as well as by way of merger and acquisitions. Such integrations would enable them to (i) better control their production costs; (ii) ensure a stable supply of good quality Chinese herbs, which are the major raw materials of Chinese medicines; (iii) distribute their products in a cost effective manner; and (iv) increase their geographical coverage and therefore market share. It is expected that large-scale fully integrated Chinese medicines manufacturers are in a better position to consolidate and become leaders in the PRC Chinese medicines market.

The significance of branding

Chinese patent medicines are manufactured according to the formula set out in the Chinese Pharmacopoeia or Drug Standards. As such, there is not much differentiation in the product offerings of Chinese patent medicines. Market players with well-established and strong brand names have a competitive advantage as their brand names represent better product quality and efficacy, which in turn enhance consumer confidence and support their growth in sales revenue and market share.

Ability to produce new products

As mentioned above, there is not much differentiation in the product offerings of Chinese patent medicines. On the other hand, the processing procedures of traditional decoction pieces, such as boiling, steaming and slicing do not require advanced technologies, and they are commonly used by the decoction pieces manufacturers. For product differentiation, manufacturers have been putting up with their efforts on research and development to improve the efficacies and consumption conveniences of traditional decoction pieces, such as the production of modern decoction pieces. Apart from introducing new products to the market, manufacturers of these products also aim at achieving a higher profitability as these products which require higher production technologies can be priced higher than traditional pharmaceutical products. Manufacturers with better capital resources to support their research and development activities will be more competitive in these aspects.

For further details of our Group's competitive strengths, please refer to the paragraph headed "Business — Competitive strengths" in this [REDACTED].

CHINESE MEDICINE MARKET IN EASTERN AND SOUTHERN CHINA

Overview of Eastern and Southern China

Eastern China consists of seven provinces and municipalities, namely Anhui, Fujian, Jiangsu, Jiangxi, Shandong, Zhejiang and Shanghai. Southern China consists of four provinces and one autonomous region, namely Guangdong, Yunnan, Guizhou, Guangxi and Hainan. From 2009 to 2013, the growth in the population and GDP of these two regions exceeded that in China as a whole. According to the Ipsos Report, these two regions have a population of 643.6 million in 2013, representing a CAGR of approximately 0.6% from 629.6 million in 2009. It is expected the population in these two regions will further increase at a CAGR of 0.6% from 647 million in 2014 to 661.5 million in 2018. Annual GDP growth rates of Eastern and Southern China from 2009 to 2013 ranged from 9.5% to 12.8% and from 10.6% to 13.5%, respectively. It is expected that the annual GDP of these two regions will continue to grow at a rate ranging from 8.6% to 10.3% from 2014 to 2018.

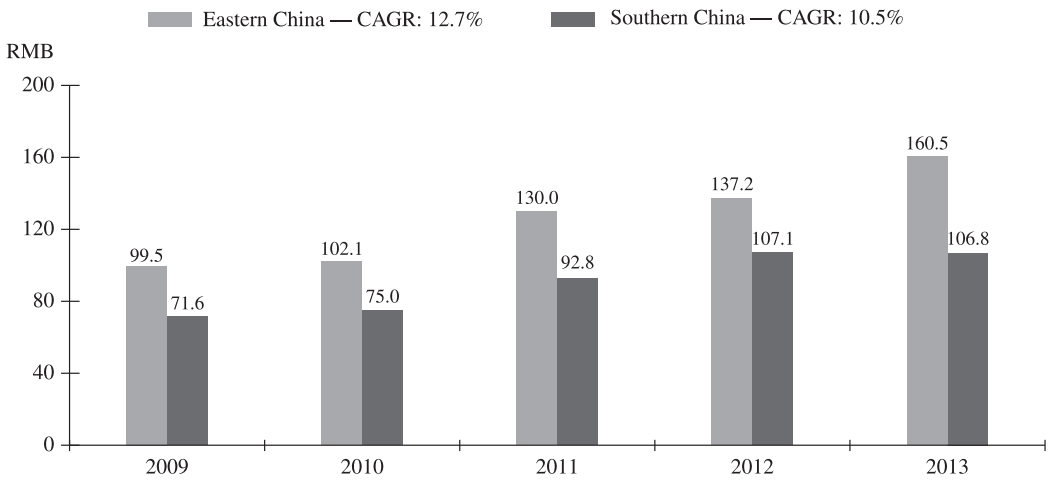
According to the Ipsos Report, the average annual per capita consumption expenditure on Chinese medicines in Eastern China increased at a CAGR of approximately 12.7% from approximately RMB99.5 in 2009 to approximately RMB160.5 in 2013. The average annual per capita consumption expenditure on Chinese medicines in Southern China increased at a CAGR of approximately 10.5% from approximately RMB71.6 in 2009 to approximately RMB106.8 in 2013.

Guangdong province is a geographically well located province in Southern China. Together with its well developed transportation system, Guangdong province is conveniently accessible by all types of transport and it provides a great environment for business activities. It is rated as one of the most prosperous provinces in the PRC, for its significant contributions to the annual GDP

growth of Southern China. In light of the aforesaid favorable factors and our Group's base in Zhongshan, our Directors believe that Guangdong province would provide good opportunities for the expansion of our pharmaceutical chain.

The Chinese medicine industry in the Guangdong province is very fragmented with approximately 107,000 pharmacies and recorded sales revenue of approximately RMB89.9 billion in 2013. In terms of number of pharmacies and sales revenue, our Group's market share in the Guangdong province was approximately 0.2% and 0.3%, respectively.

Average annual per capita consumption expenditure on Chinese medicines in Eastern and Southern China from 2009 to 2013

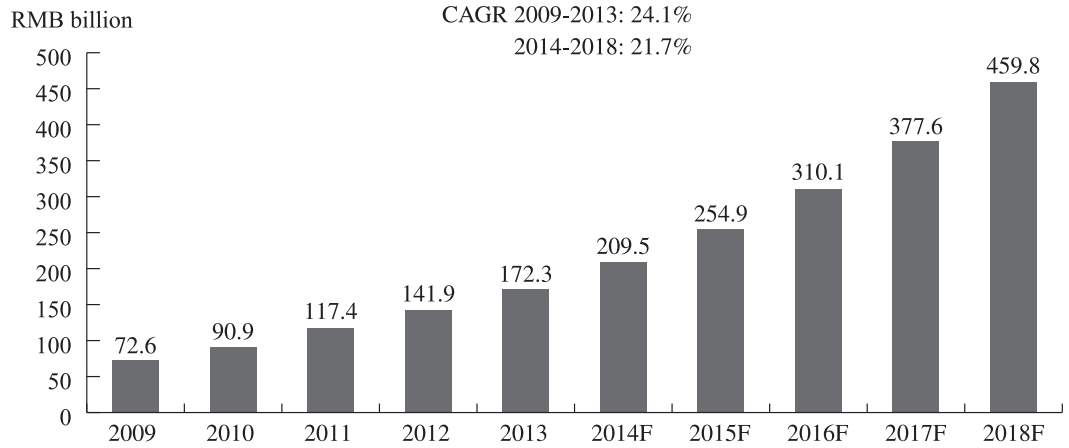


Source: National Bureau of Statistics of China

Retail sales of Chinese medicines in Eastern and Southern China

The total retail sales of Chinese medicines in Eastern and Southern China increased from approximately RMB72.6 billion in 2009 to approximately RMB172.3 billion in 2013, representing a CAGR of approximately 24.1%. It is expected that the total retail sales of Chinese medicines in these two regions will further grow at a CAGR of approximately 21.7% from approximately RMB209.5 billion in 2014 to approximately RMB459.8 billion in 2018. A majority of our Group's revenue was derived from these two regions during the Track Record Period. Driven by the aforesaid favourable socio-economic factors and leveraging on our experience and well established market reputation in the Eastern and Southern China, our Directors believe that these two regions will continue to have significant contributions to our Group's revenue.

Total retail sales value of Chinese medicines in Eastern China and Southern China from 2009 to 2018



Source: Ipsos

CHINESE MEDICINE MARKET IN ZHONGSHAN

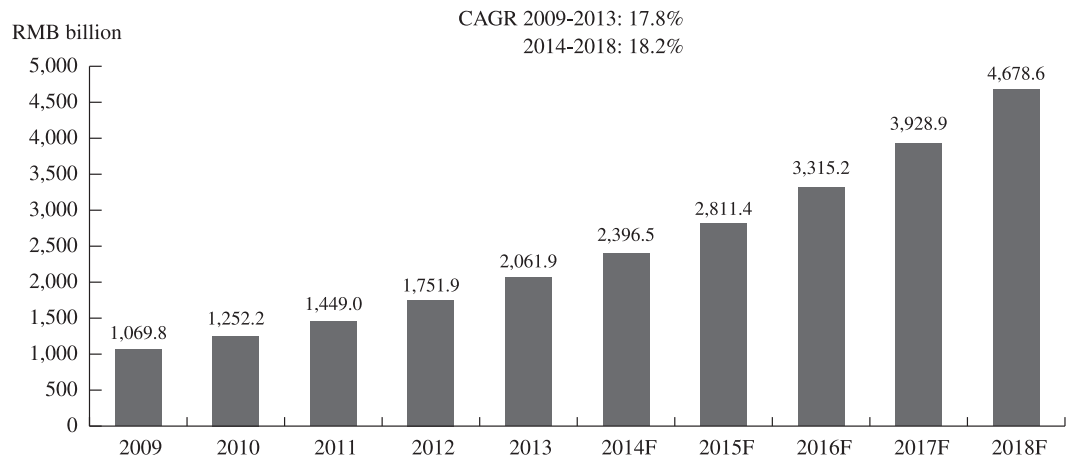
Overview of Zhongshan

Zhongshan is situated in the Western Pearl River Delta and it is a regional logistics hub connecting the eastern and western reaches of the Pearl River Delta. Its strategic location coupled with continuous government support has attracted many domestic and foreign companies to establish their businesses in Zhongshan. The GDP of Zhongshan is mainly contributed by import and export trading activities and manufacturing businesses, which employ many workers migrated from other rural areas. Given the favourable business environment, annual GDP growth rates of Zhongshan from 2009 to 2013 ranged from 10.0% to 13.5% and its population increased at a CAGR of approximately 3.8% from 3.0 million in 2009 to 3.2 million in 2013 according to the Ipsos Report. The growth rates of GDP and population of Zhongshan outperformed the PRC's overall growth rates in GDP and population from 2009 to 2013 and such outperformance is expected to sustain during the period from 2014 to 2018.

Retail sales of Chinese medicines in Zhongshan

According to the Ipsos Report, the total retail sales of Chinese medicines in Zhongshan increased from approximately RMB1,069.8 million in 2009 to approximately RMB2,061.9 million in 2013, representing a CAGR of approximately 17.8%. It is expected that the total retail sales of Chinese medicines in Zhongshan will further grow at a CAGR of approximately 18.2% from approximately RMB2,396.5 million in 2014 to approximately RMB4,678.6 million in 2018.

Total retail sales value of Chinese medicine in Zhongshan from 2009 to 2018



Source: Ipsos

According to the Ipsos Report, average annual per capita disposable income in Zhongshan increased at a CAGR of approximately 10.4% from approximately RMB23,088 in 2009 to approximately RMB34,258 in 2013, driven by the rapidly rising minimum wage at a CAGR of approximately 14.2% from 2009 to 2013. The residents in Zhongshan are getting wealthier and they are more willing to spend in order to improve their living standards. The average annual per capita consumption expenditure in Zhongshan increased at a CAGR of approximately 8.4% from approximately RMB17,415 in 2009 to approximately RMB24,071 in 2013.

It is expected that the aforesaid favourable socio-economic factors will support the increasing trend of the total retail sales of Chinese medicines in Zhongshan.

Competitive landscape of Chinese medicine retail industry in Zhongshan

The Chinese medicine retail industry in Zhongshan is very fragmented with approximately 687 chain pharmacies and 2,228 individual pharmacies in 2013. In terms of sales revenue and number of pharmacies, our Group is the largest pharmacy chain in Zhongshan according to the Ipsos Report. Revenue from the top five largest retailers accounted for 21.4% of the total retail sales revenue of Chinese medicines and healthcare products in Zhongshan in 2013, of which our Group contributed 13.4%. Amongst the top five largest retailers in Zhongshan, three of them (including our Group) are based in Zhongshan and the other two are based in Guangzhou and Shenzhen. The remaining 78.7% of the total retail sales revenue of Chinese medicines and healthcare products in Zhongshan was contributed by other smaller-sized pharmacy chains and a large number of individual pharmacies.

Pharmacy chains have competitive advantages over individual pharmacies that they can offer consumers more convenient shopping experience through a wider range of products. They are capable of putting more resources on the hiring of experienced management personnel as well as marketing and advertising activities, which can effectively enhance their brand awareness and market positioning. They also achieve economies of scale through bulk purchases. Furthermore, the new GSP standard promulgated by the CFDA on 1 June 2013 further increased the operating costs of individual pharmacies as all pharmacies are required to have a licensed pharmacist on site by end of 2015. It is expected that certain individual pharmacies will be forced out of the market.

For further details of our Group's competitive strengths, please refer to the paragraph headed "Business — Competitive strengths" in this [REDACTED].

The table below sets forth the number of pharmacies, headquarter location, revenue and market share of the top five retailers of Chinese medicines and healthcare products (in terms of revenue) in Zhongshan in 2013:

Rank	Company name	Headquarter location	Number of pharmacies in Zhongshan	Revenue in 2013 *(in RMB millions)*	Market share *(Note 2)*
1	Our Group	Zhongshan	195 *(Note 1)*	275.7	13.4%
2	Zhongshan Da Sen Lin Chain Drugstore Co., Ltd.* (中山市大參林連鎖藥業有限公司)	Guangzhou	56	75.7	3.7%
3	Zhongshan Zhongshantang Pharmaceutical Chain Co., Ltd.* (中山市中山堂藥業連鎖有限公司)	Zhongshan	36	34.1	1.7%
4	Zhongshan Furentang Pharmaceutical Chain Co., Ltd.* (中山市福仁堂藥房連鎖有限公司)	Zhongshan	32	28.8	1.4%
5	China Nepstar Chain Drugstore Ltd.* (深圳市海王星辰健康藥房連鎖有限公司)	Shenzhen	39	25	1.2%

Source: Ipsos

Notes:

1. As at the Latest Practicable Date, our Group had 201 self-operated chain pharmacies.

2. The market share was calculated by dividing the revenue of the respective retailer in 2013 by the total retail sales revenue of Chinese medicines and healthcare products in Zhongshan in the same year.

OVERVIEW

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

PRINCIPAL LAWS AND REGULATIONS

- Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) (the "**Drug Administration Law**"), which was promulgated by the Standing Committee of the National People's Congress (中華人民共和國全國人民代表大會常務委員會) (the "**SCNPC**") of the PRC on 20 September 1984 and last amended on 24 April 2015, provides the basic legal framework for the administration of the manufacture and sale of pharmaceutical products in China and covers the aspects of manufacturing, distributing, packaging, pricing and advertising of pharmaceutical products;

- Regulations for Implementation of the Drug Administration Law of the PRC (《中華人民共和國藥品管理法實施條例》) (the "**Implementation Regulation**"), which was promulgated by the State Council on 4 August 2002 and effective on 15 September 2002, sets out detailed implementation rules with respect to the administration of pharmaceutical products in China.

PRINCIPAL ADMINISTRATIVE AUTHORITIES

- CFDA, which succeeded the State Food and Drug Administration ("**SFDA**") (國家食品藥品監督管理局), is responsible for the administrative supervision and technical supervision over the research, production, circulation and usage of drugs, including Chinese patent medicines in the PRC and organising the formulation and publication of the Chinese Pharmacopeia. The local administrative authorities at the level of provinces, autonomous regions and municipalities directly under the PRC central government are responsible for the supervision and administration of drugs within their respective administrative regions.

- NHFPC is responsible for multiple supervisions over drug regulation, including but not limited to, enforcing the healthcare system reform, establishing the National Essential Drugs System (國家基本藥物制度), implementing the National List of Essential Drugs, proposing the pricing policy of drugs within the National List of Essential Drugs and supervising medical institutions.

- State Administration of Traditional Chinese Medicine of the PRC (中華人民共和國國家中醫藥管理局) ("**SATCM**"), a bureau under the jurisdiction of NHFPC, is responsible for the regulation of traditional Chinese medicine industry in the PRC.

- NDRC is responsible for the macro-guidance and administration of the healthcare industry's development planning, technological upgrading, approval of investment programs and the economic operation status of the medical enterprises, the supervision and administration over the price of medicines and formulation of the national unified price for certain drugs.

MANUFACTURING OF PHARMACEUTICAL PRODUCTS

Manufacturing Licence

Each pharmaceutical manufacturing enterprise is required to obtain a Pharmaceutical Manufacturing Permit and a business licence (營業執照). The Pharmaceutical Manufacturing Permit is issued by the CFDA. This permit is issued only after the relevant production facilities have been inspected and their sanitary conditions, quality assurance systems, management structure and equipment standards have been found to fulfill the required standards. According to the Implementation Regulation, each Pharmaceutical Manufacturing Permit is valid for five years. The pharmaceutical manufacturing enterprise must apply for an extension six months prior to the licences expiration, and extension is only granted after reevaluation by the relevant authority.

Good Manufacturing Practice (GMP)

The Ministry of Health promulgated the Good Manufacturing Practice for Drugs (2010 version) ("**2010 GMP**") (《藥品生產質量管理規範》(2010年修訂)) on 17 January 2011 which became effective on 1 March 2011. Compared with the 1998 GMP, the 2010 GMP provides stricter requirements for a manufacturer of pharmaceutical products. For example, the 2010 GMP enhanced the requirement for the facilities and strengthened the requirement for the management standard. Besides, it also established some new systems under the newly introduced concept of risk management and emphasised the connection with other supervision aspects such as pharmaceutical products registration and drug recalls. According to the 2010 GMP, a manufacturer of pharmaceutical products and pharmaceutical materials must obtain GMP certification to produce pharmaceutical products and pharmaceutical materials in China. The 2010 GMP provides detailed guidelines on practices governing the production of pharmaceutical products. A GMP certification certifies that a manufacturer's factory has met certain criteria as set out in the 2010 GMP, which include institution and staff qualifications, production premises and facilities, equipment, hygiene conditions, production management, quality controls, product operation, maintenance of sales records and manner of handling customer complaints and adverse reaction reports. The appendix to the 2010 GMP (關於發布《藥品生產質量管理規範(2010年修訂)》中藥飲片等3個附錄的公告) promulgated by the CFDA on 27 June 2014 which became effective on 1 July 2014 specifies

requirements on staff qualifications, production premises and facilities, materials and products, equipment, validation, documentation management, production management, as well as quality control for the production of decoction pieces.

Pursuant to the Notice of the CFDA, the Ministry of Health, and the State Administration of Chinese Medicine on Strengthening the Supervision and Administration of Traditional Decoction Pieces* (《國家食品藥品監督管理局、衛生部、國家中醫藥管理局關於加強中藥飲片監督管理的通知》) issued on 5 January 2011, manufacturers of traditional decoction pieces shall obtain a Pharmaceutical Manufacturing Permit and a GMP certification.

Pursuant to the Administrative Measures for Drug Good Manufacturing Practice Certification* (《藥品生產質量管理規範認證管理辦法》) promulgated by the CFDA on 7 September 2005 which was subsequently amended on 2 August 2011, GMP certificates are valid for a term of five years, except in the case of a newly established pharmaceutical manufacturer, the GMP certificate of which is valid for one year. GMP certificates must be renewed no later than six months, and in the case of a newly established pharmaceutical manufacturer, three months prior to expiration upon re-examination by the relevant authority.

Research Specification

The Guangdong Institute for Food and Drug Control (廣東省食品藥品檢驗所), authorised by the GFDA, promulgated the Research Specification on Guangdong Province Quality Standard of Modern Decoction Pieces (for Trial Implementation)* (《廣東省中藥破壁飲片質量標準研究規範（試行）》) ("**Research Specification**"), pursuant to which all the research and development units and the inspection bodies of modern decoction pieces in Guangdong are required to follow the technical specification prescribed in the Research Specification.

Continuing regulation by the CFDA

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

REGISTRATION OF PHARMACEUTICAL PRODUCTS

In addition to compliance with qualification requirements evidenced by possession of relevant permits, licences and certificates, pharmaceutical manufacturers are required to register each of their products with the CFDA prior to commencement of production. The registration is valid for a term of five years which must be renewed within six months prior to expiration by submitting application required under PRC laws to the relevant authorities. The following sets forth the application requirements and procedures to register new pharmaceutical products in China.

Registration of new pharmaceutical products

According to the Measures on the Administration of Pharmaceutical Products Registration* (《藥品註冊管理辦法》) promulgated by the CFDA on 10 July 2007 which became effective on 1 October 2007, new pharmaceutical products refer to those that were not previously available in China. Pharmaceutical products taking different dosage, forms or route or having curative effects for additional diseases are treated as new pharmaceutical products.

All new pharmaceutical products must undergo four phases before the product launch: pre-clinical research, application for clinical trials, clinical trials and application for production. All new pharmaceuticals must undergo these four phrases and obtain the approval documents and meet quality standards issued by the CFDA before launching to the market. Clinical trials comprise of four phases: phase I (preliminary pharmacology and human safety trials), phase II (preliminary assessment on the efficacy), phase III (confirmation of efficacy) and phase IV (research on applications after launching of new pharmaceuticals).

Pharmaceutical manufacturers are required to obtain an approval from the CFDA prior to commencement of clinical trials of a new pharmaceutical product. Application materials, including relevant pre-clinical study information must first be submitted to the CFDA at the provincial level. Upon receipt of the application, the CFDA at the provincial level will review the applicant's submission and conduct production site visits to collect drug samples (three sets of samples are required for biological products only) for examination by the drug inspection institution appointed by the CFDA. The CFDA will organise an expert committee made up of pharmaceutical experts and other specialists to conduct technical assessment of the new pharmaceutical product to consider whether an approval for clinical trials should be granted.

Upon completion of clinical trials, the applicant must also apply for an approval to manufacture the new pharmaceutical product. Application materials, including relevant clinical trials information and raw material samples, must be submitted to the CFDA at the provincial level and relevant drug inspection institution. The CFDA at the provincial level will then review the application materials and conduct production site visits, which must comply with GMP standards. Three consecutive production batches of drug samples (except for biological products) will be collected from the applicant's production site for examination by the drug inspection institution. After their investigation and assessment of the application, the CFDA at the provincial level and the drug inspection institution will report to the CFDA, which will conduct a final assessment. If

technical assessment is passed, the assessment center of the CFDA would notify the applicant to apply for on-site examination of production and inform the certification center of the CFDA. The certification center will organise on-site inspection on the process of bulk production of samples and confirm the feasibility of the production process being assessed, while one set of sample (three sets of samples are required for biological products) will be delivered to the drug inspection center for examination to re-examine the standard of the pharmaceutical product, and the results will be reported to the pharmaceutical product assessment center of the CFDA. The pharmaceutical product assessment center will then conclude the result from the production site and the result of sample inspection to form an opinion to report to the CFDA for approval. The CFDA will consider whether an approval for registration of the new product should be granted. If approved, the applicant will be granted a certificate of new pharmaceutical product, and a drug approval number will also be granted at the same time if the applicant is also with Pharmaceutical Manufacturing Permit and productive conditions, and the manufacturer may commence mass production of the new pharmaceutical product.

Supplemental Application

Supplemental application refers to application for variation, addition, or cancellation of the items or contents approved in the original application for new pharmaceutical products. Where changes or modifications are proposed to a registered medicine in respect of, among others, its drug standard, curative effects or production technology, the pharmaceutical manufacturer which is the applicant or holder of relevant registration certificate for such medicine is required to apply to the competent drug administration authority.

Renewal

An approval number for pharmaceutical product issued by the CFDA is valid for five years and may be renewed at least six months prior to its expiration date upon a re-examination by the relevant authority. If the manufacturer plans to continue to produce or import such medicine after such expiration, it shall apply for the re-registration of such pharmaceutical product.

DISTRIBUTION OF PHARMACEUTICAL PRODUCTS

Pharmaceutical Operation Permit

In accordance with the Drug Administration Law, the Implementation Regulation, and the Administration of Pharmaceutical Operation Permit (《藥品經營許可證管理辦法》) issued by the CFDA on 4 February 2004 which became effective from 1 April 2004, the establishment of a wholesale pharmaceutical enterprise requires the approval from the provincial drug administrative authorities of the registered locality of such wholesale pharmaceutical enterprise. Upon approval, the competent authority will grant a pharmaceutical operation permit to such wholesale pharmaceutical enterprise. The establishment of a retail pharmaceutical enterprise requires the approval of the local drug administrative authorities at or above the county level. Upon approval, the competent authority will grant a pharmaceutical operation permit to such retail pharmaceutical

enterprise. The grant of such permit is subject to an inspection of the facilities, warehouse, hygiene environment, quality control systems, personnel (including whether pharmacists and other professionals have the relevant qualifications) and equipment of the pharmaceutical enterprise. The Pharmaceutical Operation Permit is valid for five years. Each Pharmaceutical Operation Permit holder must apply for an extension of its permit within six months prior to expiration, and extensions will be granted only after a re-examination by the authority which issued the permit. In addition, wholesale or retail pharmaceutical enterprise must obtain a business licence from the relevant administration for industry and commerce prior to commencing its business.

Good Supply Practices (GSP)

Under the Drug Administration Law, the Implementation Regulation, the Good Supply Practice for Pharmaceutical Products (《藥品經營質量管理規範》) ("**GSP (2013)**") effective from 1 July 2000 which was subsequently amended on 1 June 2013, and the Administrative Measures for Certification of the Good Manufacturing Practice* (《藥品經營質量管理規範認證管理辦法》) promulgated on and effective from 24 April 2003, each wholesale or retail operator of pharmaceutical products is required to obtain a GSP certificate from the provincial drug administrative authorities of the registered locality of such wholesale or retail operator. The GSP certificate is valid for five years and may be renewed three months prior to its expiration upon a re-examination by the relevant authority.

Pursuant to the GSP (2013), the legal representative or person in charge of an enterprise shall have the qualification of licensed pharmacist. An enterprise shall, in accordance with the relevant provisions of the State, have licensed pharmacists to be responsible for the audit of prescriptions and guidance of the rational use of drugs. According to the Notice of CFDA on Implementation of the GSP (2013)* (國家食品藥品監督管理總局關於貫徹實施新修訂《藥品經營質量管理規範》(2013年版)的通知) promulgated by the CFDA which became effective on 24 June 2013, and the Guiding Opinions concerning Implementation of the GSP (2013)* (關於貫徹實施新修訂《藥品經營質量管理規範》(2013年版)的指導意見) promulgated by the Zhongshan Food and Drug Administration which became effective on 12 July 2013, all pharmaceutical operation enterprises must meet the requirements of the GSP (2013) before 31 December 2015, regardless of the expiration of their pharmaceutical operation permit and GSP certificate. Starting from 1 January 2016, pharmaceutical operation enterprises who do not meet the requirements of the GSP (2013) are not allowed to continue their pharmaceutical operating activities.

Medical Devices Operation Permit

According to the Administrative Measures for the Operation Supervision of Medical Equipment* (《醫療器械經營監督管理辦法》) promulgated by the CFDA on 30 July 2014 which became effective on 1 October 2014, enterprises engaging in Category II medical equipment business shall be administrated by archival filing, and devices engaging in Category III medical devices business shall hold a medical devices operation permit (醫療器械經營許可證).

Provisions for Supervision of Pharmaceutical Distribution

To strengthen drug supervision and administration, and maintain orderly circulation and qualities, the CFDA issued the Provisions for Supervision of Pharmaceutical Distribution* (《藥品流通監督管理辦法》) on 31 January 2007, which became effective from 1 May 2007. The relevant provisions are imposed on various aspects such as the purchase, sale and storage of medicines by pharmaceutical production and operation enterprises as well as the purchase and storage of medicines by pharmaceutical institutions.

Provisions for Supervision of Online Sales

Pursuant to the Measures Regarding the Administration of Pharmaceutical Information Service over the Internet* (《互聯網藥品信息服務管理辦法》) promulgated by the CFDA which became effective on 8 July 2004, the CFDA shall implement the supervision and administration of such websites which provide drug information service over the internet. According to the said Measures Regarding the Administration of Pharmaceutical Information Service over the internet, whoever is engaged in providing drug information services over the internet shall obtain internet pharmaceutical information service certificate (互聯網藥品信息服務資格證書). According to the Interim Provisions on the Approval of Pharmaceutical Dealership over the internet* (《互聯網藥品交易服務審批暫行規定》) promulgated by the CFDA which became effective on 1 December 2005, whoever is engaged in the drug dealership over the internet shall obtain an internet medicine dealership certificate (互聯網藥品交易服務資格證書).

According to the Notice Regarding the Implementation of Pharmaceutical Electronic Supervision* (《關於實施藥品電子監管工作有關問題的通知》) promulgated by the CFDA which became effective on 10 April 2008, the CFDA shall establish the national unified drug electronic supervision network and implement the supervision and administration pursuant to the classification of the drugs. Whoever is engaged in the manufacturing or operation of the drugs which are in the Catalogue of Pharmaceutical in the Network* (《入網藥品目錄》) shall join the drug electronic supervision network within the prescribed period of time. All the drugs in the said Catalogue of Pharmaceutical in the Network shall be labelled with the drug electronic supervision code on the minimum packaging of the products before the drugs are launched on the market.

Prescription Medicines and Over-the-Counter Medicines

In order to promote safety, efficacy and convenience in the use of pharmaceutical products, the State Drug Administration, the predecessor of the SFDA, published the Trial Administrative Measures regarding the Classification of Prescription Medicines and Over-the-Counter Medicines* (《處方藥與非處方藥分類管理辦法(試行)》) in June 1999, which became effective on 1 January 2000. These administrative measures divide drugs according to their type, specification, the relevant disease or ailment which they are designed to treat, dosage and method of administration. Prescription medicines relate to those of which prescription, purchase and intake require prescription by qualified medical practitioners. Over-the-counter medicines relate to those of which prescription, purchase and intake do not require prescription by qualified medical practitioners.

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

ADVERTISING RESTRICTION OF PHARMACEUTICAL PRODUCTS

Pursuant to the Drug Administration Law, the Implementation Regulation, and the Provisions for Drug Advertisement Examination (《藥品廣告審查辦法》) jointly issued by the CFDA and SAIC on 13 March 2007 which became effective from 1 May 2007, a pharmaceutical operation seeking to advertise its pharmaceutical products must apply for an advertising approval code, of which the validity term is one year, from the provincial drug administrative authority.

Pursuant to the Advertising Law of the PRC (《中華人民共和國廣告法》), promulgated by the SCNPC on 27 October 1994 and which became effective on 1 February 1995, an advertisement for medicines or medical devices should not in any way contain the following:

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

The contents of an advertisement for a medicine should be based on the indications approved by the public health administrative department of the State Council or by the public health administrative department of a province, autonomous region or municipality directly under the PRC government. For advertisements which are subject to examination according to the Advertising Law of the PRC before publication and acts of advertising without approval by advertisement examination organisations, the advertising supervision and administrative organisations shall order the responsible advertisers, advertising agents or advertisement publishers to stop publications, confiscate the advertising expenses and concurrently impose a fine ranging from the amount equal to the advertising expenses to five times the amount of the advertising expenses.

Pursuant to the Drug Administration Law, pharmaceutical products advertisement shall be subject to approval by the drug regulatory department of the province, autonomous region or municipality directly under the PRC government where the enterprise is located, and once approved a pharmaceutical products advertisement shall be given an approval number. No one may launch pharmaceutical products advertisements without an approval number. Prescription medicine may be introduced in the medical or pharmaceutical professional publications jointly designated by the administrative department for health and the drug regulatory department under the State Council, but their advertisements may not be released by mass media or disseminated to the general public by other means. Any violation of the provision of this law related to the control over pharmaceutical products advertising shall be punished pursuant to the provisions of the Advertising Law of the PRC, and the relevant drug regulatory department that issued the advertisement approval number shall withdraw it and shall, within one year, reject any application for approval of advertising for the drug in question.

PACKAGING OF PHARMACEUTICAL PRODUCTS

According to the Measures for The Administration of Pharmaceutical Packaging* (《藥品包裝管理辦法》) effective on 1 September 1988, pharmaceutical packaging must comply with the provisions of the national standard and professional standard. If there are no such standards, the enterprise can formulate its own standard after obtaining the approval from the provincial level food and drug administration. The enterprise shall reapply to the relevant authorities if it needs to change the packaging standard. Drugs without packing must not be sold in PRC (except for drugs needed by the army).

PHARMACEUTICAL DIRECTIONS AND LABELS

Pursuant to the Administrative Provisions on Pharmaceutical Directions and Labels* (《藥品說明書和標籤管理規定》) effective on 1 June 2006, pharmaceutical directions and labels shall be subject to the ratification of the CFDA. The labels of a pharmaceutical shall be based on its directions, and the contents thereof shall not exceed the scope of the directions, and may not be printed with any word or mark that implies the curative effect, misleads the usage or inappropriately advertises the product. The package of a pharmaceutical must be printed or affixed with the label according to the provisions, and shall not carry other literal or video materials or other information that advertises the product or the enterprise. The smallest packages produced by a pharmaceutical manufacturing enterprise for sale on the market must be attached with directions. The pharmaceutical directions, the interior labels and exterior labels as well as names shall comply with the relevant provisions.

CATALOGUE AND PRICE CONTROLS OF PHARMACEUTICAL PRODUCTS

The National Medical Insurance Programme

The national medical insurance programme was adopted pursuant to the Decision of the State Council on the Establishment of the Urban Employee Basic Medical Insurance Programme* (《國務院關於建立城鎮職工基本醫療保險制度的決定》) issued by the State Council on 14 December 1998, under which all employers in urban cities are required to enroll their employees in the national medical insurance programme and the insurance premium is jointly contributed by the employers and employees. The State Council promulgated Guiding Opinions of the State Council about the Pilot Urban Resident Basic Medical Insurance* (《國務院關於開展城鎮居民基本醫療保險試點的指導意見》) on 10 July 2007, under which urban residents of the pilot district, rather than urban employees, may voluntarily join the Urban Resident Basic Medical Insurance.

Participants of the national medical insurance programme and their employers, where relevant, are required to contribute to the payment of insurance premium on a monthly basis. Programme participants are eligible for full or partial reimbursement of the cost of medicines included in the National Medical Insurance Drugs Catalogue and Provincial Medical Insurance Drugs Catalogue. The Notice Regarding the Tentative Measures for the Administration of the Scope of Medical Insurance Coverage for Pharmaceutical Products for Urban Employee* (《關於印發城鎮職工基本醫療保險用藥範圍管理暫行辦法的通知》), jointly issued by several authorities including the Ministry of Labour and Social Security of the PRC ("**Ministry of Labour and Social Security**") (中華人民共和國勞動和社會保障部) and the MOF, among others, on 12 May 1999, provides that a pharmaceutical product listed in the National Medical Insurance Drugs Catalogue and Provincial Medical Insurance Drugs Catalogue must be clinically needed, safe, effective, reasonably priced, easy to use, available in sufficient quantity, and must meet the following requirements: it is set forth in the Chinese Pharmacopoeia; it meets the standards promulgated by the CFDA; and if imported, it is approved by the CFDA for import.

The Ministry of Labour and Social Security, together with other government authorities, has the power to determine the medicines included in the National Medical Insurance Drugs Catalogue, which is divided into two parts, Part A and Part B. Provincial governments are required to include all Part A medicines listed on the National Medical Insurance Drugs Catalogue in their Provincial Medical Insurance Drugs Catalogue, but have the discretion to adjust upwards or downwards by no more than 15% from the number of Part B medicines listed in the National Medical Insurance Drugs Catalogue. As a result, the contents of Part B of the Provincial Medical Insurance Drugs Catalogue may differ from region to region in the PRC.

Participants purchasing medicines included in Part A of the National Medical Insurance Drugs Catalogue and Provincial Medical Insurance Drugs Catalogue are entitled to reimbursement of the entire amount of the purchase price. Participants purchasing medicines included in Part B of the National Medical Insurance Drugs Catalogue and Provincial Medical Insurance Drugs Catalogue are

required to pay a certain percentage of the purchase price and obtain reimbursement for the remainder of the purchase price. The percentage of reimbursement for Part B medicines differs from region to region in the PRC.

The total amount of reimbursement for the cost of medicines, in addition to other medical expenses, for an individual participant under the national medical insurance programme in a calendar year is capped at the amounts in such participant's individual account under such programme. The amount in a participant's account varies, depending on the amount of contributions from the participants and his/her employer.

National List of Essential Drugs

On 18 August 2009, the Ministry of Health and eight other ministries and commissions in the PRC issued the Regulation for National Essential Drugs List (Provisional) (《國家基本藥物目錄管理辦法(暫行)》) and the Guidelines on the Establishment of the National Essential Drugs System* (《關於建立國家基本藥物制度的實施意見》), which aim to promote essential medicines sold to consumers at fair prices in the PRC and ensure that the general public in the PRC has equal access to the drugs contained in the National List of Essential Drugs. On 13 March 2013, the Ministry of Health issued the National List of Essential Drugs (2012 Edition) (《國家基本藥物目錄(2012年版)》) which came into effect as from 1 May 2013. According to these regulations, basic healthcare institutions funded by the PRC government, which primarily include county-level hospitals, county-level Chinese medicine hospitals, rural clinics and community clinics, shall store up and use drugs listed in National List of Essential Drugs. The drugs listed in National List of Essential Drugs shall be purchased by centralised tender process and shall be subject to the price control by the NDRC. Pursuant to the Drug Pricing Reform Notice, price controls on all pharmaceutical products, except for anesthetics and some types of psychiatric drugs, were lifted from 1 June 2015. Medical drugs in the National List of Essential Drugs are all listed in the National Medical Insurance Drugs Catalogue and Provincial Medical Insurance Drugs Catalogue and the entire amount of the purchase price of such drugs is entitled to reimbursement.

Price Controls

Pursuant to the Drug Administration Law, the Implementation Regulation, and the Circular on Price-controlled Pharmaceutical Products List of the NDRC* (《國家發展改革委定價藥品目錄》) issued by the NDRC on 27 June 2005 which was subsequently amended on 5 March 2010, prices of pharmaceutical products are either determined by the PRC government or by market conditions. The prices of certain pharmaceutical products sold in the PRC, primarily those included in the National Medical Insurance Drugs Catalogue and Provincial Medical Insurance Drugs Catalogue, are subject to price controls mainly in the form of fixed prices or price ceilings. Manufacturers and operators are not allowed to set the actual price for any price-controlled product above the price ceiling or deviate from the fixed price imposed by the PRC government. The prices of medicines that are not subject to price controls are determined freely at the discretion of the respective

pharmaceutical manufacturing enterprises. The prices of medicines that are subject to price controls are administered by the NDRC and provincial price control authorities. From time to time, the NDRC publishes and updates a list of medicines that are subject to price controls.

The NDRC directly regulates the pricing of all prescription medicines on the National Medical Insurance Drugs Catalogue and Provincial Medical Insurance Drugs Catalogue and all medicines on the National List of Essential Drugs, and delegates to provincial and regional price control authorities the authority to regulate the pricing of non-prescription medicines on the National Medical Insurance Drugs Catalogue and Provincial Medical Insurance Drugs Catalogue.

Pursuant to the Drug Pricing Reform Notice, price controls on all pharmaceutical products, except for anesthetics and some types of psychiatric drugs, were lifted from 1 June 2015. After the Drug Pricing Reform Notice has come into effect, in case there are any previous policy or provision related to the administration of drug prices that is inconsistent with the Drug Pricing Reform Notice, the Drug Pricing Reform Notice shall prevail.

COLLECTIVE TENDERING SYSTEM FOR PROCUREMENT OF PHARMACEUTICAL PRODUCTS BY MEDICAL ORGANISATIONS

The Guiding Opinions concerning the Urban Medical and Health System Reform* (《關於城鎮醫藥衛生體制改革的指導意見》) which was promulgated on 21 February 2000, aims to regulate the purchasing process of pharmaceutical products by medical institutions. The Ministry of Health and other relevant government authorities have promulgated a series of regulations and releases in order to implement the tender requirements.

According to the Notice on Issuing Certain Regulations on the Trial Implementation of centralised Tender Procurement of Drugs by Medical Institutions* (《關於印發醫療機構藥品集中招標採購試點工作若干規定的通知》) promulgated on 7 July 2000 and the Notice on Further Improvement on the Implementation of centralised Tender Procurement of Drugs by Medical Institutions* (《關於進一步做好醫療機構藥品集中招標採購工作的通知》) promulgated on 8 August 2001 (collectively, the "**Centralised Tender Regulations**"), medical institutions established by PRC government at county level or above are required to implement centralised tender procurement of drugs.

The Ministry of Health promulgated the Working Regulations of Medical Institutions for Procurement of Drugs by centralised Tender and Price Negotiations (for Trial Implementation)* ("**Centralised Procurement Regulations**") 《醫療機構藥品集中招標採購和集中議價採購工作規範(試行)》) on 13 March 2002, and promulgated Sample Document for Medical Institutions for Procurement of Drugs by centralised Tender and Price Negotiations (for Trial Implementation)* ("**Centralised Tender Sample Document**") (《醫療機構藥品集中招標採購和集中議價採購文件範本(試行)》) in November 2001, to implement the tender process requirements and ensure the requirements are followed uniformly throughout the country. The Centralised Tender Regulations

and the Centralised Tender Sample Document provide rules for the tender process and negotiations of the prices of drugs, operational procedures, a code of conduct and standards or measures of evaluating bids and negotiating prices.

The Notice Regarding the Measures for Guangdong Province Pharmaceutical Dealership of Medical Institutions* (《關於印發廣東省醫療機構藥品交易相關辦法的通知》) (the "**Notice**") issued on 11 September 2013 contains several appendices. In Appendix I, the Trial Measures of Guangdong Province on Medical Institutions Transaction of Non-essential Drugs* (《廣東省醫療機構非基本藥物交易辦法(試行)》), and Appendix II, the Trial Measures of Guangdong Province on Medical Institutions Transaction of Essential Drugs* (《廣東省醫療機構基本藥物交易辦法(試行)》), the price of non-essential drugs and essential drugs are set by the medical administrative authorities. As for the same products from the same manufacturers, comparing with the average tender price of the five lowest ones in other provinces (or the average tender price of the three lowest ones in other provinces when concerning the products of exclusive production after grouping) and the current purchase price in the Guangdong province, it shall take the lower one as the market price. In Appendix III, the Trial Measures for Guangdong Province Procurement and Distribution of Medical Institutions* (《廣東省醫療機構藥品採購與配送辦法(試行)》), pharmaceutical manufacturing enterprises shall designate their own distribution enterprises, and the number of distribution enterprises is unlimited in each region. Medical institutions shall select the distribution enterprises designated by the pharmaceutical manufacturing enterprises, or by the method of random election.

Pursuant to the Detailed Rules of Guangdong Province on Pharmaceutical Dealership Bargaining of Medical Institutions* (《關於廣東省醫療機構藥品交易議價的管理細則》) promulgated on 12 February 2014 and effective on 20 March 2014, medical institutions and pharmaceutical manufacturing enterprises can trade pharmaceutical products through the centralised drug procurement platform of Guangdong province. The medical institutions can, through this centralised drug procurement platform, make an offer to the pharmaceutical manufacturing enterprises, including the pharmaceutical product specification, quantity, price, period of procurement, etc. On the other hand, pharmaceutical manufacturing enterprises can bargain for another price, accept or refuse the offer.

According to the Notice Regarding the Extension of Trial Period of Guangdong Province Pharmaceutical Dealership of Medical Institutions* (《關於延長廣東省醫療機構藥品交易相關辦法試行期的通知》) issued on 13 February 2015, the Notice will continue to be effective until the date of promulgation and implementation of new measures.

On 9 February 2015, the General Office of the State Council issued the Guiding Opinions on Enhancing Centralised Procurement of Pharmaceutical Products by Public Hospitals* (《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》) (the "**Guiding Opinions**"), which became effective on the same date. Pursuant to the Guiding Opinions, all drugs used by public hospitals, except for decoction pieces, shall be procured through the provincial centralised drug procurement platform. Hospitals are encouraged to directly settle the payment for drugs with pharmaceutical manufacturing enterprises, whereas pharmaceutical manufacturing enterprises are encouraged to

directly settle the distribution expenses with distribution enterprises. In addition, the Guiding Opinions also made it clear that pharmaceutical manufacturing enterprises are primarily liable for guaranteeing the drug quality and supply and may distribute drugs to the designated hospital directly or by a qualified drug operator with distribution capabilities.

MANUFACTURING AND DISTRIBUTION OF FOOD PRODUCTS

The Food Safety Law of the PRC (《中華人民共和國食品安全法》), which became effective on 1 June 2009, provides the basic legal framework for the administration of the manufacturing and distribution of food products in China and covers the manufacturing, distributing, packaging and advertising of food products. Its implementation regulations set out detailed implementation rules with respect to the administration of food products in China.

Food Production Licence

Pursuant to the Food Safety Law of the PRC and the Measures for the Administration of Food Production Licences* (《食品生產許可管理辦法》) promulgated by the State Administration of Quality Supervision, Inspection and Quarantine ("**AQSIQ**") (國家質量監督檢驗檢疫總局) on 7 April 2010 and became effective on 1 June 2010, each enterprise engaging in food production activities is required to obtain a food production licence (食品生產許可證) and a business licence. This licence is issued only after the relevant food safety standards are fulfilled. Each food production licence is valid for three years. The food manufacturing enterprise must apply for an extension six months prior to the licence expiration.

Production Licence for Industrial Products

Pursuant to the Regulation of the PRC on the Administration of Production Licence for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》) promulgated by the State Council on 9 July 2005 and became effective on 1 September 2005, and the Measures for the Implementation of the Regulation of the PRC on the Administration of Production Licence for Industrial Products* (《中華人民共和國工業產品生產許可證管理條例實施辦法》) promulgated by the AQSIQ on 21 April 2014 and became effective on 1 August 2014, the enterprises which produce important industrial products listed in the Catalogue of the Industrial Products (工業產品目錄) are required to obtain a production licence for industrial products (工業產品生產許可證). This licence is issued only after the relevant conditions are met. The period of validity of a production licence shall be five years, but the period of validity of the production license for food processing enterprises shall be three years. The enterprise must apply for an extension six months prior to the licence expiration.

Food Circulation Permit

Pursuant to the Food Safety Law of the PRC and the Measures for the Administration of Food Circulation Permits (《食品流通許可管理辦法》) promulgated by the SAIC and became effective on 30 July 2009, an enterprise engaged in food distribution shall obtain a business licence and a food

circulation permit (食品流通許可證) from the local administration for industry and commerce at county level or above. Each food circulation permit is valid for three years. The food operating enterprise must apply for an extension thirty days prior to the permit expiration. The hygiene permits or food hygiene permits issued before the effectiveness of this law remain valid until expiration.

LABELING OF FOOD PRODUCTS

According to the Administrative Provisions on Food Labeling (2009 Revision)* (《食品標籤管理規定》(2009修訂)) promulgated by the AQSIQ on 27 August 2007 and was amended on 22 October 2009, the labeling of food produced (sub-packaged) and distributed must comply with these provisions. Food products or their packages shall be attached with labels, unless it is otherwise provided by any law or administrative regulation. The contents of a food label shall be authentic, accurate, exoteric, easy to understand, scientific and legal.

ANTI-BRIBERY, ANTI-CORRUPTION AND ANTI-UNFAIR COMPETITION

According to the Anti Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), which became effective on 1 December 1993, a business operator who bribes by giving property or using any other method in order to sell or purchase the commodities in violation of the Criminal Law of the PRC (《中華人民共和國刑法》) which became effective on 1 October 1997, shall be investigated in accordance with the Criminal Law of the PRC; even if the acts mentioned above do not constitute violation of the Criminal Law of the PRC, such business operator may be subject to a fine in the range of RMB10,000 to RMB200,000 in accordance with the facts and the illegal income shall be confiscated.

The Interim Provisions on Banning Commercial Bribery* (《關於禁止商業賄賂行為的暫行規定》) ("**Interim Provisions**"), which became effective on 15 November 1996 provides a detailed scope of "property or using any other method". As defined in the Interim Provisions, the term "property" refers to cash and material objects, including property given by a business operator to another entity or individual in the form of promotion fees, publicity fees, sponsorship fees, research fees, service charges, consulting fees, commissions or reimbursements, in order to sell or purchase commodities, and the term "other method" refers to any means other than giving property, such as offering domestic or international tours or site visits in various forms. In addition, the Interim Provisions also made it clear that commercial bribery committed by any employee of a business operator for selling or purchasing commodities for the business operator shall be regarded as the business operator's act.

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

is listed on the Adverse Records of Commercial Briberies for the first time, its products shall not be purchased by public medical institutions and a pharmaceutical and health institutions receiving financial subsidies in local province in two years from the publication of the record, and public medical institution and medical and health institutions receiving financial subsidies in other province shall lower their rating in bidding or purchasing process. If a pharmaceutical production and operation enterprise is listed on the Adverse Records of Commercial Briberies for two times or more in five years, its products shall not be purchased by public medical institutions, and medical and health institutions receiving financial subsidies nationwide in two years from the publication of the record.

As advised by our PRC Legal Advisors, from a PRC law perspective, a pharmaceutical enterprise will not be penalised by the relevant PRC government authorities merely by virtue of having contractual relationships with distributors or third party promoters who are engaged in bribery activities, so long as such pharmaceutical enterprise and its employees are not utilising the distributors or third party promoters for the implementation of, or acting in conjunction with them in, the prohibited bribery activities. In addition, a pharmaceutical enterprise is under no legal obligation to monitor the operating activities of its distributors and third party promoters, and will not be subject to penalties or sanctions by relevant PRC government authorities as a result of failure to monitor their operating activities.

PRODUCT LIABILITY

In accordance with the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (as promulgated on 22 February 1993 by the SCNPC, effective from 1 September 1993, amended on 8 July 2000 and 27 August 2009 respectively) and the Tort Liability Law of the PRC (《中華人民共和國侵權責任法》) (promulgated on 26 December 2009 by the SCNPC and effective from 1 July 2010), where a product with any defect caused by the fault of the seller causes any harm to another person, the seller shall assume the tort liability. If a seller can neither specify the manufacturer nor specify the suppliers of a defective product, the seller shall assume the tort liability caused by such defective product.

Where any harm is caused by a defective product, the victim may require compensation to be made by the manufacturer or the seller of such defective product. If the defect of the product is caused by the manufacturer and the seller has made the compensation for the defect, the seller shall be entitled to be reimbursed by the manufacturer; if the defect of the product is caused by the fault of the seller and the manufacturer has made the compensation for the defect, the manufacturer shall be entitled to be reimbursed by the seller. But if there are relevant provisions in the contracts between manufacturers, sellers or between manufacturers and sellers, the parties to the contracts shall implement the provisions of the contracts.

If any product defect is found after such product has been put into circulation, the manufacturer or seller shall take such remedial measures as warning and recall in a timely manner. The manufacturer or seller, who fails to take remedial measures in a timely manner or take sufficient and effective measures and has caused any harm, shall assume the tort liability. In the

case that a manufacturer or seller knowing any defect of a product continues to manufacture or sells the product and the defect causes a death or any serious damage to the health of another person, the victim shall be entitled to require the corresponding punitive compensation. In addition, operators who sell defective products may be subject to confiscation of earnings from such sales, revocation of business licences and imposition of fines, and in severe circumstances, may be subject to criminal liability.

PROTECTION OF CONSUMERS

The Law of the PRC on Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) was promulgated by the SAIC on 31 October 1993 and was amended on 25 October 2013 to protect consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers.

According to the said law on Protection of Consumer Rights and Interests, consumers whose lawful rights and interests are infringed upon in purchasing or using commodities may claim compensation from the sellers, which shall, after paying compensation, have the right to be reimbursed by the liable manufacturers or other sellers supplying the commodities to them. Consumers or other victims suffering personal injuries or property damage from defects of commodities may claim compensation from the sellers and manufacturers. If the manufacturers are liable, the sellers shall, after paying compensation, have the right to be reimbursed by the manufacturers. If the sellers are liable, the manufacturers shall, after paying compensation, have the right to be reimbursed by the sellers. In extreme situations, pharmaceutical manufacturers and operators may be subject to criminal liability if their goods or services lead to the death or injuries of customers or other third parties.

PROTECTION OF PHARMACEUTICAL PRODUCTS IN CHINA

Protection under patent law

According to the Patent Law of the PRC (《中華人民共和國專利法》) last amended on 27 December 2008, patent protection is divided into three categories: invention patent (發明專利), utility model patent (實用新型專利) and design patent (外觀設計專利). Invention patent (發明專利) is intended to protect new technology or measures for a product, method or its improvement. Utility model patent (實用新型專利) is intended to protect new technology or measures to increase the utility of a product shape, structure or its combination. Design patent (外觀設計專利) is intended to protect new designs by combination of product shape, graphic or color with aesthetic and industrial application value. Patents relating to pharmaceutical inventions are effective for 20 years from the initial date the patent application was filed.

Under the said Patent Law of the PRC, the term of patent protection starts from the date the patent application was filed, instead of the date it was registered. Patents relating to utility-models and designs are effective for ten years from the initial date the patent application was filed. Existing

patents can become invalid or unenforceable due to a number of factors, including known or unknown prior art, deficiencies in patent application, and lack of originality in technology. Any persons and entities using the patent in the absence of authorisation from the patent owner or conducting other activities which infringe upon patent rights will be held liable for compensation to the patent owner, subject to fines charged by relevant administrative authorities and may include criminal liabilities.

Protection under trademark law

The Trademark Law of the PRC (《中華人民共和國商標法》) was promulgated on 23 August 1982 (last amended on 30 August 2013) and the Implementing Regulations of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) was promulgated on 3 August 2002 (last amended on 29 April 2014). These laws provide the basic legal framework for the regulation of trademarks in China. The PRC Trademark Office is responsible for the registration and administration of trademarks throughout the country. Like patents, the PRC has adopted a "first-to-file" principle with respect to trademarks. The period of validity of a registered trademark is ten years from the date of registration; renewal is allowed thereafter and the period of validity of each renewal of registration is ten years. The SAIC has the power to investigate and handle any act of infringement of the exclusive right to use a registered trademark according to law; where the case is so serious as to constitute a crime, it shall be transferred to the judicial authority for handling.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Foreign-invested enterprises in China must follow applicable PRC laws and regulations and must not engage in activities detrimental to China's public interest.

The Foreign Investment Catalogue

The Foreign Investment Catalogue jointly promulgated by the NDRC and the MOFCOM on 10 March 2015, became effective on 10 April 2015 and replaced the Catalogue of Industries for Guiding Foreign Investment (2011 version) (《外商投資產業指導目錄(2011年版)》) which was effective on 30 January 2012. Both versions of the Foreign Investment Catalogue divide foreign investments in the PRC into three categories: encouraged, restricted or prohibited. Encouraged foreign investments are eligible to receive certain benefits and incentives from the PRC government, which may change from time to time; restricted foreign investments are permitted subject to restrictions; and prohibited foreign investments are not allowed. According to the Foreign Investment Catalogue, application of processing techniques such as steaming, stir-frying, moxibustion and calcination for making decoction pieces and production of traditional Chinese patent medicines of secret prescriptions are prohibited from foreign investment.

Foreign Currency Exchange

The principal regulations governing foreign currency exchange in China are the Regulations on Foreign Exchange of the PRC (《中華人民共和國外匯管理條例》) which were promulgated by the State Council on 29 January 1996 and last amended on 5 August 2008 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (《結匯、售匯及付匯管理規定》) promulgated by the People's Bank of China on 20 June 1996 which became effective on 1 July 1996. Under these regulations and other PRC rules and regulations on currency conversion, RMB is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and divided payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of the State Administration of Foreign Exchange (國家外匯管理局) (the "**SAFE**") or its local counterparts is obtained. Foreign investment enterprises ("the **FIEs**") in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain supporting documents (such as board resolutions), or for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain their recurrent exchange earnings according to their needs of operation and the sums retained may be deposited into foreign exchange bank accounts maintained with the designated banks in the PRC. In addition, foreign exchange transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval form or filling with the relevant PRC government authorities (if necessary).

The Circular of the SAFE on Relevant Business Operations Issues Concerning Improving the Administration of the Payment and Settlement of Foreign Exchange Capital of Foreign-Funded Enterprises (《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》) was promulgated and became effective on 29 August 2008. It regulates the conversion by a FIE of foreign currency into RMB by restricting how the converted RMB may be used. It requires that RMB converted from the foreign currency denominated capital of a FIE may only be used for purposes within the business scope approved by the relevant governmental authorities and may not be used for equity investments within the PRC unless otherwise specifically provided. Further, it cannot be used to repay RMB loans if the proceeds of such loans have not yet been used.

Pursuant to the Circular of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for 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》) promulgated by SAFE on 19 November 2012 and became effective on 17 December 2012, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, for domestic transfer of the foreign exchange under direct investment. This Circular also simplified the capital verification and confirmation formalities for the FIEs; the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire equities; the foreign exchange registration formalities required for the foreign investors to acquire the equities of Chinese party; and further improve the administration on exchange settlement of foreign exchange capital of FIEs.

On 4 July 2014, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Overseas Investment and Financing and Roundtrip Investments via Special Purpose Vehicles* (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), effective from 4 July 2014, which requires PRC residents (including PRC institutions and PRC individual residents) to register with SAFE for foreign exchange registration of overseas investments before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle, and to update such registration in the event of any change of basic information of the registered special purpose vehicle or major change in capital, including increases and decreases of capital, share transfers, share swaps, mergers or divisions.

The M&A Rules

On 8 August 2006, six authorities including without limitation MOFCOM issued the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), which became effective on 8 September 2006 and amended on 22 June 2009. Such Rules provide that an offshore special purpose vehicle established for listing purposes, and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the China Securities Regulatory Commission prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

Restrictions Relating to Dividend Distribution

The principal regulations governing distribution of dividends of foreign holding companies include the Company Law of the PRC (《中華人民共和國公司法》) promulgated by the SCNPC on 29 December 1993 and last amended on 28 December 2013, the Law of the PRC on Foreign-Funded Enterprises (《中華人民共和國外資企業法》) promulgated by the SCNPC on 12 April 1986 and amended on 31 October 2000, and the Administrative Rules under the Foreign Investment Enterprise Law* (《外資企業法實施細則》) promulgated by the State Council on 12 December 1990 and amended on 12 April 2001 and 19 February 2014.

According to the Company Law of the PRC, where a company distributes its after-tax profits for the current financial year, it shall draw 10% of its profits as the company's statutory common reserve, provided that a company with an aggregate common reserve of more than 50% of the company's registered capital may elect not to draw any statutory common reserve any more. Where the aggregate balance of the company's statutory common reserve is insufficient to cover any loss the company made in the previous financial year, the current financial year's profits shall first be used to cover the loss before any statutory common reserve is drawn.

EMPLOYEES' HEALTH AND SAFETY

Pursuant to the Interim Measures for the Pharmaceutical Industry Production Safety Management* (《醫藥行業安全生產管理暫行辦法》) promulgated and effective on 20 November 1987, in order to improve the production safety management and protect the health and safety of

the employees of pharmaceutical companies, all the pharmaceutical companies and their employees are required to satisfy the specified requirements, including the requirements on premises and facilities, sanitation, safety education, safety precautions, safety inspection, accident management, etc. Any violation of the provision of this law which leads to the damage of the state's or people's properties or lives shall be subject to the administrative sanctions, financial penalties or criminal liability.

ENVIRONMENTAL PROTECTION

Pursuant to the Discharge Standard of Water Pollutants for Pharmaceutical Industry Chinese Medicine Category (《中藥類製藥工業水污染物排放標準》) ("**Discharge Standard**") promulgated on 25 June 2008 and effective on 1 August 2008, the discharge of water pollutants control of each pharmaceutical enterprise manufacturing Chinese medicine is required to carry out according to the Discharge Standard.

THE RECOGNITION AND REVIEW OF HIGH AND NEW TECHNOLOGY ENTERPRISES

Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), promulgated by the Ministry of Science and Technology of the PRC (中華人民共和國科學技術部), MOF and the SAT on 14 April 2008, high and new technology enterprises refer to the PRC resident enterprises that are incessantly devoted to the research and development as well as transformation of technological achievements in the "High and New Technology Areas Entitled to the Key Support of the State", have formed their own independent core intellectual property rights and are carrying out business activities on this basis, and have been registered for at least one year within the territory of China (excluding Hong Kong, Macau and Taiwan regions).

An enterprise must satisfy the following requirements simultaneously in order to be recognised as a high and new technology enterprise: (1) it must be an enterprise that is registered within the territory of China (excluding Hong Kong, Macau and Taiwan regions) and possess independent intellectual property rights of the core technologies in its major products (services) by way of independent research and development, acceptance of transfer, donation or merger during the immediately preceding three years or through exclusive licensing for a minimum period of five years; (2) its products (services) fall within the range prescribed in the "High and New Technology Areas Entitled to the Key Support of the State"; (3) the proportion of scientific and technological personnel and research and development personnel in its employment with a minimum educational background of junior college graduation reaches the required percentage; (4) the enterprise has been conducting continuous research and development activities, and the proportion of its total research and development expenditure and its total sales revenue during the immediately preceding three accounting years meets the requirements; (5) the revenue from high and new technology products (services) accounts for at least 60 percent of the total revenue of the enterprise during the current year; and (6) the enterprise's level of organisation and management of research and development, capacity of transformation of scientific and technological achievements, the number of independent

intellectual property rights, growth in sales and total assets as well as other indicators conform to the requirements mentioned in the Guidelines on the Administration of Recognition of High and New Technology Enterprises (《高新技術企業認定管理工作指引》).

The validity period of the high and new technology enterprise qualification shall be three years from the date of issuance of the certificate of high and new technology enterprise. The enterprise shall file an application for review within three months prior to the expiration of the validity period. The review shall focus on the conformity with requirement no. 4 above, i.e. the continuity of research and development activities of the enterprise and the proportion of its total research and development expenditure and its total sales revenue. Therefore, for the review, the enterprise shall submit a report on research and development activities and other technological innovation activities conducted during the immediately preceding three years, statements on the research and development expenditure of the enterprise during the immediately preceding three financial years and special audit report on the revenue from high and new technology products (services) during the immediately preceding one financial year attested by a qualified intermediary agency.

OVERVIEW

Zhongzhi Pharmaceutical was established in March 1993 as a collective enterprise and was transformed into a limited liability company in September 1999. Mr. Lai was a manager of Zhongzhi Pharmaceutical prior to the transformation and became a shareholder of Zhongzhi Pharmaceutical when it was transformed into a limited liability company with a registered capital of RMB800,000. Mr. Lai contributed, from his personal wealth, RMB600,000 to the registered capital of Zhongzhi Pharmaceutical and was interested in 75% equity interest in Zhongzhi Pharmaceutical. The remaining equity interest of Zhongzhi Pharmaceutical was owned by Mr. Luo and other Independent Third Parties. At that time, Zhongzhi Pharmaceutical was engaged in the distribution of Chinese patent medicines and Western medicines to hospitals and pharmacies in Zhongshan, Guangdong province, the PRC.

In 2001, to expand the distribution business, our Group set up its first pharmacy in Zhongshan called "Zeus Chain Pharmacy* (中智大藥房)", which marked the launch of our Group's brand "Zeus (中智)" among retail customers in Zhongshan. The pharmacy sold a variety of pharmaceutical products, traditional decoction pieces and Chinese patent medicines that the Group sourced from third party manufacturers and suppliers in the PRC. From 2001 onwards, our Group continued to expand the number of our self-operated chain pharmacies in Zhongshan.

Also in 2001, leveraged on our Group's experience in the pharmaceutical industry, we started to manufacture traditional decoction pieces under the "Zeus (中智)" brand, mainly for sale in our self-operated chain pharmacies. In this connection, we established Zhongzhi Herb Pieces and acquired land properties in Zhongshan with an aggregate area of approximately 32,380 sq.m. at the consideration of approximately RMB4,870,000 for the construction of a factory thereon to manufacture traditional decoction pieces. In 2003, Zhongzhi Herb Pieces was recognised as a High and New Technology Enterprise* (高新技術企業) by the Guangdong Provincial Bureau for Science and Technology* (廣東省科學技術廳). In the same year, our Group began to research and develop the technology applied in the manufacturing of our modern decoction pieces. For further details of our modern decoction pieces, please refer to the paragraph headed "Business — Pharmaceutical manufacturing — Our own-branded products — Decoction pieces" in this [REDACTED].

On 30 August 2007, to expand our production capacity and strength, Zhongzhi Pharmaceutical acquired the majority interest in Honeson Pharmaceutical to expand into the production of Chinese patent medicines. Honeson Pharmaceutical is a limited liability company, which owns a factory located in Zhongshan with a site area of approximately 32,400 sq.m. At that time, Honeson Pharmaceutical was engaged in the production of pharmaceutical products under the brand of "Liumian* (六棉牌)" and the major products were Cough Tablets* (克咳片), Seven Star Tea Granules* (小兒七星茶顆粒) and Shiqi Waigan Granules* (石岐外感顆粒). As at the Latest Practicable Date, we sold 35 types of own-branded Chinese patent medicines where Honeson Pharmaceutical was our wholly owned subsidiary.

In 2011, we launched our modern decoction pieces in the PRC market. Such products included red sage root modern decoction pieces* (丹參破壁飲片), American ginseng modern decoction pieces* (西洋參破壁飲片), sanqi modern decoction pieces* (三七破壁飲片), dendrobium modern decoction pieces* (石斛破壁飲片).

As at the Latest Practicable Date, our Group had 201 self-operated chain pharmacies in Zhongshan and an extensive distribution network comprising distributors and independent chain pharmacies covering 30 provinces, autonomous regions and municipality cities in the PRC.

The following sets forth the important milestones in the development of the business of our Group to date:

Year	Event
2001	We set up our first "Zeus Chain Pharmacy* (中智大藥房)"
	Zhongzhi Pharmaceutical acquired land properties in Zhongshan for the construction of a factory for the production of traditional decoction pieces
2003	Zhongzhi Herb Pieces was accredited as a High and New Technology Enterprise* (高新技術企業) by the Guangdong Provincial Bureau for Science and Technology* (廣東省科學技術廳) *(Note 1)*
	We commenced the research and development of the techniques in the manufacturing of our modern decoction pieces
2007	Zhongzhi Pharmaceutical acquired 60% equity interest in Honeson Pharmaceutical to expand our business into the production of Chinese patent medicines
2008	Honeson Pharmaceutical was accredited as a High and New Technology Enterprise* (高新技術企業) by the Guangdong Provincial Bureau for Science and Technology* (廣東省科學技術廳) *(Note 2)*

Year	Event
2010	Zhongzhi Pharmaceutical acquired the remaining 40% of equity interest in Honeson Pharmaceutical which then became a wholly owned subsidiary of the Group
2011	We launched our modern decoction pieces in the PRC market
	Zhongzhi Herb Pieces was accredited by the GFDA as the "modern decoction pieces pilot production enterprise"* (中藥破壁飲片試點生產企業)
2014	The Group was approved by the State Administration of Traditional Chinese Medicine of the PRC (國家中醫藥管理局) to set up the State-level laboratory in the PRC for the development of modern decoction pieces techniques and applications
	A total of 32 self-operated chain pharmacies of our Group were accredited as preferential price pharmacies* (藥品平價商店) by the Price Control Administration of Guangdong Province (廣東省物價局), offering a wide range of pharmaceutical products to customers at a preferential price
	A total of 85 self-operated chain pharmacies of our Group were designated as medical insurance designated pharmacies* (中山醫保指定藥店), allowing customers to purchase drugs listed in Zhongshan Outpatient Essential Medical Insurance Drugs Catalogue* (中山市門診基本醫療保險藥品目錄) by using their medical insurance cards

Note 1: The accreditation as a High and New Technology Enterprise* (高新技術企業) of Zhongzhi Herb Pieces was renewed upon expiry since 2003 and the current one is valid until 10 October 2017.

Note 2: The accreditation as a High and New Technology Enterprise* (高新技術企業) of Honeson Pharmaceutical was renewed upon expiry since 2008 and the current one is valid until 10 October 2017.

CORPORATE HISTORY

The following sets forth the corporate development of each member of our Group since their respective dates of incorporation.

Our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 September 2014 with an authorised share capital of HK$390,000 divided into 39,000,000 Shares of HK$0.01 each, of which 10,000 Shares were allotted and issued fully paid to Cheer Lik at par. On 2 February 2015, Cheer Lik entered into various share transfer agreements, pursuant to which Cheer Lik transferred 8,052 Shares to Crystal Talent at par, 1,000 Shares to Advance Keypath Global Investments Limited at par, 200 Shares to Metro Joy International Limited at par and 44 Shares to Aces Chess Global Limited at par. Such transfers were legally completed on the same date and as a result of which, Cheer Lik only held 704 Shares.

Windom Talent Company Limited

Windom Talent Company Limited was incorporated in the BVI on 16 September 2014. As at the date of incorporation, it had an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, of which one share was allotted and issued fully paid to our Company at par where such allotment and issue of share was legally completed on 16 September 2014. The share capital and shareholding of Windom Talent Company Limited has remained unchanged since its incorporation.

As at the Latest Practicable Date, Windom Talent Company Limited was an intermediate holding company which held the entire issued share capital of Grant Talent.

Grant Talent

Grant Talent was incorporated in Hong Kong on 1 August 2014 with a fully paid up issued share capital of HK$1 registered under the name of the initial subscriber, and the same was transferred to Mrs. Lai on 25 August 2014 which was legally completed on the same date. On 14 October 2014, Windom Talent Company Limited acquired the entire issued share capital of Grant Talent at the consideration of HK$1 from Mrs. Lai. The said acquisition was legally completed on 14 October 2014 and since then, Grant Talent became a wholly owned subsidiary of Windom Talent Company Limited.

As at the Latest Practicable Date, Grant Talent was an intermediate holding company which held the entire equity interest of Zhongzhi Pharmaceutical.

Zhongzhi Pharmaceutical

Zhongzhi Pharmaceutical was established in the PRC as a collective enterprise on 5 March 1993 with a registered capital of RMB500,000 wholly owned by an Independent Third Party. On 1 September 1999, it was resolved that Zhongzhi Pharmaceutical be transformed into a limited liability company with a registered capital of RMB800,000. The transformation was legally completed on 27 September 1999 and the equity interest of Zhongzhi Pharmaceutical was owned as to 75% by Mr. Lai, 5% by Mr. Luo and 20% by other Independent Third Parties.

On 1 March 2002, Mrs. Lai entered into various equity transfer agreements to acquire from the other shareholders an aggregate of 20% equity interest in Zhongzhi Pharmaceutical at the cash consideration of RMB160,000, which was equivalent to the amount of the registered capital as represented by the percentage of equity interest of the transferors in Zhongzhi Pharmaceutical. The acquisitions were legally completed on 1 March 2002 and as a result, Zhongzhi Pharmaceutical was owned as to 75% by Mr. Lai, 20% by Mrs. Lai and 5% by Mr. Luo.

On 6 October 2003, the registered capital of Zhongzhi Pharmaceutical was increased by RMB20,000,000 from RMB800,000 to RMB20,800,000. The additional registered capital was contributed in cash as to RMB15,000,000 by Mr. Lai, RMB1,504,000 by Mrs. Lai, RMB376,000 by Mr. Luo and RMB3,120,000 by Mr. Lai Zhi Ming (賴智明), who is a brother of Mr. Lai. The increase in registered capital was legally completed on 30 October 2003. As a result, Zhongzhi Pharmaceutical was owned as to 75% by Mr. Lai, 8% by Mrs. Lai, 2% by Mr. Luo and 15% by Mr. Lai Zhi Ming.

On 18 May 2007, Mr. Lai entered into an equity transfer agreement with Mr. Lai Zhi Ming to acquire 15% equity interest in Zhongzhi Pharmaceutical at the cash consideration of RMB3,120,000, which was equivalent to the amount of the registered capital as represented by the percentage of equity interest of Mr. Lai Zhi Ming in Zhongzhi Pharmaceutical. The acquisition was legally completed on 6 June 2007 and as a result Zhongzhi Pharmaceutical was owned as to 90% by Mr. Lai, 8% by Mrs. Lai and 2% by Mr. Luo.

On 7 August 2012, Mr. Lai entered into an equity transfer agreement with Mr. Luo to acquire 1.5% equity interest in Zhongzhi Pharmaceutical at the cash consideration of approximately RMB358,000, which was approximately equivalent to the unaudited net asset value of Zhongzhi Pharmaceutical as at 30 June 2012. The acquisition was legally completed on 23 August 2012 and as a result Zhongzhi Pharmaceutical was owned as to 91.5% by Mr. Lai, 8% by Mrs. Lai and 0.5% by Mr. Luo.

According to the Group Companies Registration Guidelines* (企業集團登記指南) promulgated by Guangdong Province Administration for Industry & Commerce (廣東省工商行政管理局), any company having the word "group" in its name shall have not less than RMB30,000,000 as its registered capital and shall have at least three subsidiaries. Hence, Zhongzhi Pharmaceutical increased its registered capital from RMB20,800,000 to RMB30,000,000 through Reorganisation as follows:

1. On 9 October 2012, Zhongzhi Pharmaceutical's registered capital was increased by RMB2,364,000 from RMB20,800,000 to RMB23,164,000. The additional registered capital was contributed in cash by Zhongshan Yu Xin, which was formed by Mr. Lai, Ms. Mou, Mr. Cao and 18 present/former employees of our Group, which represented an opportunity for our present/former employees to participate in the growth and return of our Group in light of their past or future contribution. As a result, Zhongzhi Pharmaceutical was owned as to 82.16% by Mr. Lai, 7.18% by Mrs. Lai, 0.45% by Mr. Luo and 10.21% by Zhongshan Yu Xin;

2. On 19 October 2012, Zhongzhi Pharmaceutical's registered capital was increased by RMB472,400 from RMB23,164,000 to RMB23,636,400. The additional registered capital was contributed in cash by Guangdong Jun Ke, which was an investment company decided to invest in Zhongzhi Pharmaceutical in light of the growth potential and prospects of the company. As a result, Zhongzhi Pharmaceutical was owned as to approximately 80.52% by Mr. Lai, 7.04% by Mrs. Lai, 0.44% by Mr. Luo, 10% by Zhongshan Yu Xin and 2% by Guangdong Jun Ke; and

3. On 26 October 2012, Zhongzhi Pharmaceutical's registered capital was increased by RMB6,363,600 from RMB23,636,400 to RMB30,000,000. The additional registered capital was funded by the capital reserve of Zhongzhi Pharmaceutical proportional to the then equity interest held by each shareholder. As a result, the ownership of Zhongzhi Pharmaceutical remained unchanged and was owned as to 80.52% by Mr. Lai, 7.04% by Mrs. Lai, 0.44% by Mr. Luo, 10% by Zhongshan Yu Xin and 2% by Guangdong Jun Ke.

As part of the Reorganisation, Mr. Lai, Mrs. Lai and Mr. Luo entered into the following equity transfer agreements for the transfer of their respective equity interests in Zhongzhi Pharmaceutical:

Date of equity transfer agreements	Transferor	Transferee	% of equity interest transferred	Cash consideration (approximate) (RMB)
29 July 2014	Mr. Lai	Zhongshan Zhi Ying Capital Investment Limited* (中山市智穎股權投資有限公司) ("**Zhongshan Zhi Ying**"), a company wholly owned by Mr. Lai	80.52%	24,156,000
29 July 2014	Mr. Luo	Zhongshan Rui Qi Investment Management Limited* (中山市瑞琪投資管理有限公司) ("**Zhongshan Rui Qi**"), a company wholly owned by Mr. Luo	0.44%	132,000
1 December 2014	Mrs. Lai	Grant Talent, a company wholly owned by Mrs. Lai	7.04%	6,309,000

The cash consideration for each of the equity transfer agreements dated 29 July 2014 was equivalent to the respective amount of the registered capital as represented by the percentage of equity interest of the respective transferor in Zhongzhi Pharmaceutical; whereas the cash consideration for the equity transfer agreement dated 1 December 2014 was determined with reference to the valuation as conducted by an independent valuer, who valued Zhongzhi Pharmaceutical at approximately RMB89,610,000 as at 30 September 2014. The transfers by Mr. Lai and Mr. Luo were completed on 30 July 2014 whereas the transfer by Mrs. Lai was completed on 19 January 2015. As a result of the transfers, Zhongzhi Pharmaceutical was owned as to 80.52% by Zhongshan Zhi Ying, 7.04% by Grant Talent, 10% by Zhongshan Yu Xin, 2% by Guangdong Jun Ke and 0.44% by Zhongshan Rui Qi.

Various equity transfer agreements were entered into by Grant Talent with Zhongshan Zhi Ying, Zhongshan Yu Xin, Guangdong Jun Ke and Zhongshan Rui Qi to acquire their respective equity interests of 80.52%, 10%, 2% and 0.44% in Zhongzhi Pharmaceutical at the cash consideration of RMB72,154,000, RMB8,961,000, RMB1,792,000 and RMB394,000 respectively, which were determined with reference to the valuation as conducted by an independent valuer who valued Zhongzhi Pharmaceutical at approximately RMB89,610,000 as at 30 September 2014. On 2 February 2015, such transfers were approved by the Department of Commerce of Guangdong Province* (廣東省商務廳) and the same were legally completed on 6 February 2015 when the new business licence of Zhongzhi Pharmaceutical was issued. As a result, Zhongzhi Pharmaceutical became a wholly owned subsidiary of Grant Talent.

As at the Latest Practicable Date, Zhongzhi Pharmaceutical was engaged in the research, development, and sale of pharmaceutical products.

Zeus Hong Kong

Zeus Hong Kong was incorporated in Hong Kong as a limited liability company on 14 April 2011 with an authorised share capital of HK$10,000 divided into 10,000 shares with a par value of HK$1 each, of which 10,000 shares were allotted and issued to Zhongzhi Pharmaceutical at par. There has been no change in the shareholding of Zeus Hong Kong since its incorporation up to the Latest Practicable Date.

As at the Latest Practicable Date, the principal activity of Zeus Hong Kong was the holding of a trademark registered in Hong Kong.

Honeson Pharmaceutical

Honeson Pharmaceutical was established in the PRC as a collective enterprise on 2 March 1986 with a registered capital of RMB1,121,000. From 1986 to 2001, there were various increases in the registered capital of Honeson Pharmaceutical and on 9 October 2001, Honeson Pharmaceutical was transformed into a limited liability company with a registered capital of RMB10,000,000.

In August 2007, Zhongzhi Pharmaceutical and Mr. Lai entered into various equity transfer agreements with the then shareholders, all of whom are Independent Third Parties to acquire the entire equity interest in Honeson Pharmaceutical at an aggregate cash consideration of RMB10,000,000. The acquisitions were legally completed on 31 August 2007. As a result, Honeson Pharmaceutical was owned as to 60% by Zhongzhi Pharmaceutical and 40% by Mr. Lai.

On 10 June 2010, Zhongzhi Pharmaceutical entered into an equity transfer agreement with Mr. Lai to acquire 40% equity interest in Honeson Pharmaceutical at a cash consideration of RMB4,160,000, which was approximately proportional to the audited net asset value of Honeson Pharmaceutical as at 31 December 2009. The acquisition was legally completed on 22 June 2010. As a result, Honeson Pharmaceutical became a wholly owned subsidiary of Zhongzhi Pharmaceutical.

As at the Latest Practicable Date, Honeson Pharmaceutical was engaged in the development and production of Chinese patent medicines.

Zhongzhi Chain Pharmacies

Zhongzhi Chain Pharmacies was established in the PRC as a limited liability company on 27 July 2001 with a registered capital of RMB2,000,000. As at the date of establishment, Zhongzhi Chain Pharmacies was owned as to 90% by Mr. Lai, 5% by Mr. Cai Hai Yu (蔡海育) and 5% by Ms. Jiang Mei Fang (姜梅芳). Mr. Cai Hai Yu is currently a vice general manager of our Group's sales and distribution network, whereas Ms. Jiang Mei Fang is currently the general manager of Zhongzhi Chain Pharmacies.

On 12 November 2003, the registered capital of Zhongzhi Chain Pharmacies was increased by RMB2,600,000 from RMB2,000,000 to RMB4,600,000. The additional registered capital was solely contributed by Zhongzhi Pharmaceutical in cash. As a result, Zhongzhi Chain Pharmacies was owned as to approximately 56.52% by Zhongzhi Pharmaceutical, 39.13% by Mr. Lai, 2.175% by Mr. Cai Hai Yu and 2.175% by Ms. Jiang Mei Fang.

On 10 June 2010, Zhongzhi Pharmaceutical entered into an equity transfer agreement with Mr. Lai, Mr. Cai Hai Yu and Ms. Jiang Mei Fang to acquire an aggregate of approximately 43.48% equity interest in Zhongzhi Chain Pharmacies at the cash consideration of RMB2,000,000, which was equivalent to the amount of the registered capital as represented by the percentage of equity interest of the transferors in Zhongzhi Chain Pharmacies. The acquisition was legally completed on 22 June 2010 and Zhongzhi Chain Pharmacies became a wholly owned subsidiary of Zhongzhi Pharmaceutical. As at the Latest Practicable Date, Ms. Jiang Mei Fang and Mr. Cai Hai Yu are indirect shareholders of the Company who held an aggregate of 13.37% interest in Advance Keypath Global Investments Limited, which in turn held 10% shareholding interest of our Company.

As at the Latest Practicable Date, Zhongzhi Chain Pharmacies was engaged in the retail sale of pharmaceutical and healthcare products.

Zhongzhi Food

Zhongzhi Food was established in the PRC as a limited liability company on 10 December 2014 with a registered share capital of RMB500,000. As at the date of establishment, Zhongzhi Food was a wholly owned subsidiary of Zhongzhi Pharmaceutical.

As at the Latest Practicable Date, Zhongzhi Food was engaged in the manufacturing and sale of food products.

Zhongzhi Herb Pieces

Zhongzhi Herb Pieces was established in the PRC as a limited liability company on 10 July 2001 with a registered capital of RMB600,000. As at the date of establishment, Zhongzhi Herb Pieces was owned as to approximately 66.7% by Zhongzhi Pharmaceutical and approximately 33.3% by Mrs. Lai.

On 13 October 2003, the registered capital of Zhongzhi Herb Pieces was increased by RMB6,000,000 from RMB600,000 to RMB6,600,000. The additional registered capital was contributed by Zhongzhi Pharmaceutical in cash. As a result, Zhongzhi Herb Pieces was owned as to approximately 96.97% by Zhongzhi Pharmaceutical and approximately 3.03% by Mrs. Lai.

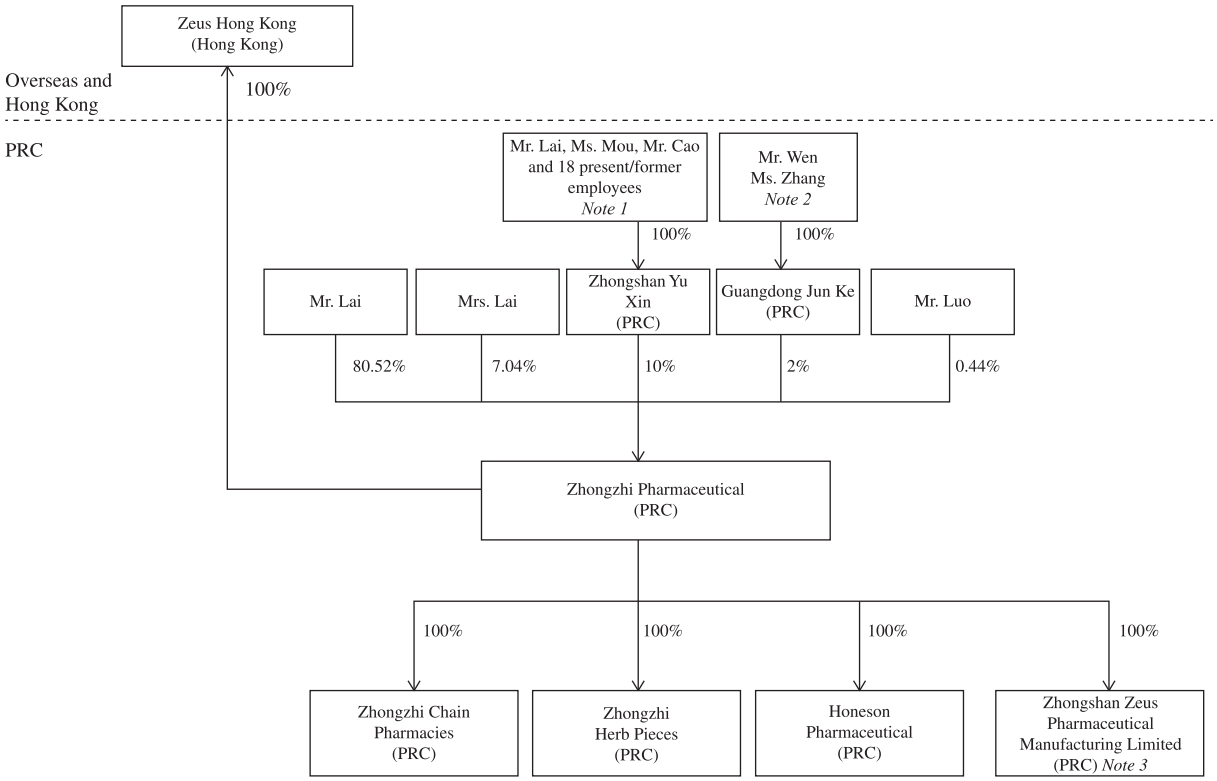
On 10 June 2010, Zhongzhi Pharmaceutical entered into an equity transfer agreement with Mrs. Lai to acquire approximately 3.03% equity interest in Zhongzhi Herb Pieces at the cash consideration of RMB200,000, which was equivalent to the amount of the registered capital as represented by the percentage of equity interest of Mrs. Lai in Zhongzhi Herb Pieces. The acquisition was legally completed on 22 June 2010 and Zhongzhi Herb Pieces became a wholly owned subsidiary of Zhongzhi Pharmaceutical.

As foreign investors are prohibited from holding any equity interest in Zhongzhi Herb Pieces under the applicable PRC laws and regulations, on 31 August 2014, Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo as part of the Reorganisation, entered into various equity transfer agreements with Zhongzhi Pharmaceutical to acquire 87.56%, 10%, 2% and 0.44% equity interest in Zhongzhi Herb Pieces at the cash consideration of approximately RMB7,693,000, RMB879,000, RMB176,000 and RMB39,000 respectively which were determined with reference to the valuation conducted by an independent valuer who valued Zhongzhi Herb Pieces at RMB8,787,000 as at 31 July 2014. The acquisitions were legally completed on 22 September 2014 and as a result, Zhongzhi Herb Pieces ceased to be a member of our Group with effect from 22 September 2014.

As at the Latest Practicable Date, the principal business of Zhongzhi Herb Pieces was the production of decoction pieces.

CORPORATE STRUCTURE

The following diagram shows the shareholdings and corporate structure of our Group immediately before the Reorganisation.



Note 1: The shareholders of Zhongshan Yu Xin are Mr. Lai, Ms. Mou, Mr. Cao and 18 present/former employees of our Group. Please refer to the details of the Zhongshan Yu Xin shareholders in the paragraph headed "Corporate Reorganisation — Offshore reorganisation" in Appendix V headed "Statutory and General Information" to this [REDACTED].

Note 2: Mr. Wen and Ms. Zhang held 53% and 47% equity interest in Guangdong Jun Ke respectively. Other than their aforesaid equity interest in Guangdong Jun Ke, both of them are Independent Third Parties.

Note 3: Zhongshan Zeus Pharmaceutical Manufacturing Limited* (中山市中智製藥有限公司) was deregistered on 15 July 2014 in light of its inactive status.

REORGANISATION

Onshore Reorganisation

The onshore part of the Reorganisation consisted of the following major steps:

1. On 15 July 2014, Zhongshan Zhi Ying was established in the PRC as a limited liability company with a registered capital of RMB300,000 which was wholly owned by Mr. Lai. On 29 July 2014, Zhongshan Zhi Ying entered into an equity transfer agreement with Mr. Lai to acquire 80.52% equity interest in Zhongzhi Pharmaceutical at the cash consideration of RMB24,156,000, which was equivalent to the amount of the registered capital as represented by the percentage of equity interest of Mr. Lai in Zhongzhi Pharmaceutical.

2. On 15 July 2014, Zhongshan Rui Qi was established in the PRC as a limited liability company with a registered capital of RMB500,000 which was wholly owned by Mr. Luo. On 29 July 2014, Zhongshan Rui Qi entered into an equity transfer agreement with Mr. Luo to acquire 0.44% equity interest in Zhongzhi Pharmaceutical at the cash consideration of RMB132,000, which was equivalent to the amount of the registered capital as represented by the percentage of equity interest of Mr. Luo in Zhongzhi Pharmaceutical.

   As a result, Zhongzhi Pharmaceutical was owned as to 80.52%, 7.04%, 10%, 2% and 0.44% by Zhongshan Zhi Ying, Mrs. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Zhongshan Rui Qi respectively.

3. Under the applicable PRC laws and regulations, foreign investors are prohibited from holding any equity interest in Zhongzhi Herb Pieces. On 31 August 2014, Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo entered into various equity transfer agreements with Zhongzhi Pharmaceutical to acquire 87.56%, 10%, 2% and 0.44% equity interest in Zhongzhi Herb Pieces respectively at the consideration of approximately RMB7,693,000, RMB879,000, RMB176,000 and RMB39,000 respectively which were determined with reference to the valuation conducted by an independent valuer who valued Zhongzhi Herb Pieces at RMB8,787,000 as at 31 July 2014. The acquisitions were legally completed on 22 September 2014.

4. On 31 August 2014, all the agreements constituting the Contractual Arrangements were entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces, Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo. Please refer to the "Contractual Arrangements" section in this [REDACTED] for further details.

Offshore Reorganisation

The offshore part of the Reorganisation consisted of the following major steps:

1. On 2 January 2014, Cheer Lik was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued to Mrs. Lai at par.

2. On 2 January 2014, Metro Joy International Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, of which 53 shares were allotted and issued fully paid to Mr. Wen at par and 47 shares were allotted and issued fully paid to Ms. Zhang at par.

3. On 25 July 2014, Crystal Talent was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued to Mr. Lai at par.

4. On 25 July 2014, Advance Keypath Global Investments Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued to Ms. Mou at par. In September 2014, Advance Keypath Global Investments Limited has undergone capital reorganisation to the effect that the authorised share capital was changed to US$500 divided into 500,000 shares of US$0.001 each. Mr. Lai, Ms. Mou, Mr. Cao and 18 present/former employees of our Group, all being shareholders of Zhongshan Yu Xin, were introduced to Advance Keypath Global Investments Limited. As at the Latest Practicable Date, there were a total of 21 shareholders and their respective shareholdings were set out in the paragraph headed "Corporate Reorganisation — Offshore reorganisation" in Appendix V headed "Statutory and General Information" to this [REDACTED]. The shareholding structure of Advance Keypath Global Investments Limited and Zhongshan Yu Xin are the same.

5. On 25 July 2014, Aces Chess Global Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued fully paid to Mr. Luo at par.

6. On 1 August 2014, Grant Talent was incorporated in Hong Kong as a limited liability company with a fully paid up issued share capital of HK$1 registered under the name of the initial subscriber, and the same was transferred to Mrs. Lai on 25 August 2014.

7. On 12 September 2014, our Company was incorporated in the Cayman Islands with limited liability. At the time of incorporation, our Company had an authorised share capital of HK$390,000 divided into 39,000,000 Shares of HK$0.01 of which 10,000 Shares were allotted and issued fully paid to Cheer Lik at par.

8. On 16 September 2014, Windom Talent Company Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued fully paid to our Company at par.

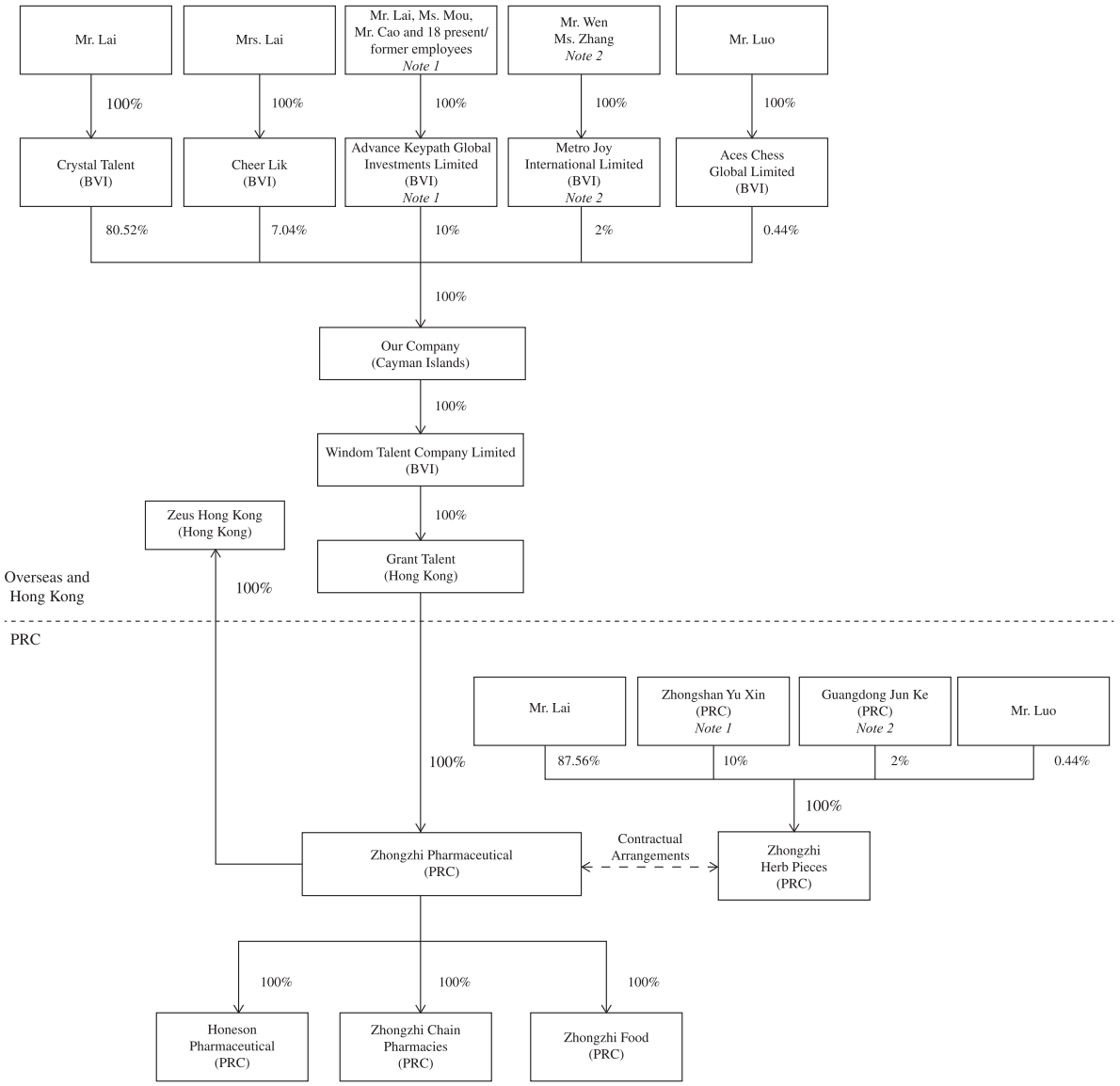
9. On 14 October 2014, Windom Talent Company Limited acquired from Mrs. Lai and became the shareholder of the entire issued share capital of Grant Talent at the consideration of HK$1 and Grant Talent became a wholly owned subsidiary of Windom Talent Company Limited.

10. On 1 December 2014, Grant Talent entered into an equity transfer agreement with Mrs. Lai to acquire 7.04% equity interest in Zhongzhi Pharmaceutical at the cash consideration of approximately RMB6,309,000, which was determined with reference to the valuation as conducted by an independent valuer who valued Zhongzhi Pharmaceutical at RMB89,610,000 as at 30 September 2014. Such transfer has been approved by the Department of Commerce of Guangdong Province* (廣東省商務廳). The acquisition was legally completed on 19 January 2015.

11. On 2 February 2015, each of Crystal Talent, Advance Keypath Global Investments Limited, Metro Joy International Limited and Aces Chess Global Limited entered into a share transfer agreement with Cheer Lik, to acquire from Cheer Lik at par 8,052 Shares, 1,000 Shares, 200 Shares and 44 Shares respectively. As a result, our Company was owned as to 80.52%, 7.04%, 10%, 2% and 0.44% by Crystal Talent, Cheer Lik, Advance Keypath Global Investments Limited, Metro Joy International Limited and Aces Chess Global Limited respectively.

12. Various equity transfer agreements were entered into by Grant Talent with Zhongshan Zhi Ying, Zhongshan Yu Xin, Guangdong Jun Ke and Zhongshan Rui Qi to acquire their respective equity interests of 80.52%, 10%, 2% and 0.44% in Zhongzhi Pharmaceutical at the cash consideration of approximately RMB72,154,000, RMB8,961,000, RMB1,792,000 and RMB394,000 respectively, which were determined with reference to the valuation as conducted by an independent valuer who valued Zhongzhi Pharmaceutical at RMB89,610,000 as at 30 September 2014. On 2 February 2015, such transfers were approved by the Department of Commerce of Guangdong Province* (廣東省商務廳) and the same were legally completed on 6 February 2015 when the new business licence of Zhongzhi Pharmaceutical was issued. Our PRC Legal Advisors have confirmed that our Group has obtained the necessary consent from the relevant government authority in respect of the transfers. As a result, Zhongzhi Pharmaceutical became a wholly owned subsidiary of Grant Talent.

As at the Latest Practicable Date, the above steps of onshore and offshore parts of the Reorganisation have been legally completed. The following diagram shows the shareholdings and corporate structure of our Group immediately after completion of the Reorganisation (both onshore and offshore parts) but before completion of the Capitalisation Issue and the [REDACTED]:



Note 1: The shareholders and shareholding structure of Advance Keypath Global Investments Limited and Zhongshan Yu Xin are the same. The shareholders are Mr. Lai, Ms. Mou, Mr. Cao and 18 present/former employees of our Group. Please refer to the details of the shareholders of Advance Keypath Global Investments Limited and Zhongshan Yu Xin in the paragraph headed "Corporate Reorganisation — Offshore reorganisation" in Appendix V headed "Statutory and General Information" to this [REDACTED].

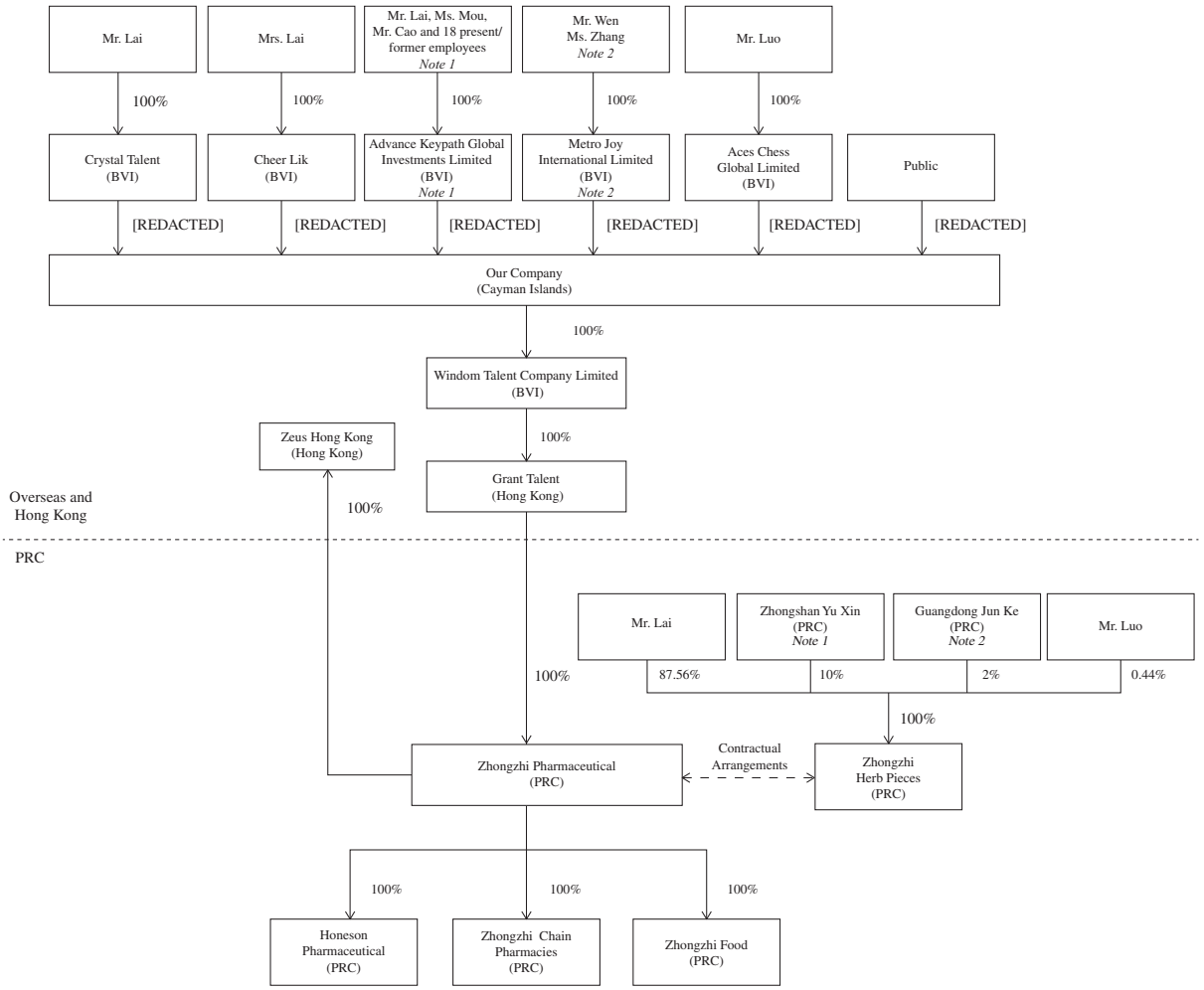
Note 2: The shareholders and shareholding structure of Metro Joy International Limited and Guangdong Jun Ke are the same. Mr. Wen and Ms. Zhang held 53% and 47% of equity interest respectively in Metro Joy International Limited and Guangdong Jun Ke.

According to the Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors*《關於外國投資者併購境內企業的規定》("**M&A Rules**"), which became effective since 8 September 2006 and was amended on 22 June 2009, the acquisition of a PRC domestic enterprise by a foreign investor is subject to approval by, and registration with, the relevant PRC regulatory authorities. As confirmed by our PRC Legal Advisors, the acquisition of 7.04% equity interest of Zhongzhi Pharmaceutical by Grant Talent from Mrs. Lai is an acquisition to be governed by the M&A Rules. Such acquisition has been approved by the Department of Commerce of Guangdong Province* (廣東省商務廳) and a new business licence of Zhongzhi Pharmaceutical has been issued. As Zhongzhi Pharmaceutical became a sino-foreign equity joint venture enterprise after the above acquisition, which will not be regarded as a domestic enterprise under the M&A Rules, our PRC Legal Advisors confirmed that the M&A Rules do not apply to the acquisition of Zhongzhi Pharmaceutical by Grant Talent entered on 21 January 2015.

Our PRC Legal Advisors have confirmed that all relevant approvals and permits in relation to the transfer of equity interest of the PRC established companies in our Group, as described above as part of the Reorganisation, had been obtained and the procedures involved had been carried out in accordance with PRC laws and regulations. As confirmed by our PRC Legal Advisors, our beneficial owners who are PRC citizens or residents have completed the process of registration pursuant to Circular No. 37 in November 2014.

HISTORY AND CORPORATE STRUCTURE

The following diagram shows the shareholding and corporate structure of our Group immediately after completion of the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme).



Note 1: The shareholders and shareholding structure of Advance Keypath Global Investments Limited and Zhongshan Yu Xin are the same. The shareholders are Mr. Lai, Ms. Mou, Mr. Cao and 18 present/former employees of our Group. Please refer to the details of the shareholders of Advance Keypath Global Investments Limited and Zhongshan Yu Xin in the paragraph headed "Corporate Reorganisation — Offshore reorganisation" in Appendix V headed "Statutory and General Information" to this [REDACTED].

Note 2: The shareholders and shareholding structure of Metro Joy International Limited and Guangdong Jun Ke are the same. Mr. Wen and Ms. Zhang held 53% and 47% of equity interest respectively in Metro Joy International Limited and Guangdong Jun Ke.

OVERVIEW

Our business operations can broadly be divided into two segments in the pharmaceutical industry in the PRC, namely, (i) pharmaceutical manufacturing; and (ii) operation of chain pharmacies in Zhongshan, Guangdong province, the PRC.

- *Pharmaceutical manufacturing*: We develop, manufacture and sell own-branded pharmaceutical products including (i) Chinese patent medicines; and (ii) decoction pieces consisting of traditional decoction pieces and modern decoction pieces, which are sold in the PRC markets. Our core brands are "Zeus (中智)", "Liumian* (六棉牌)" and "Caojinghua* (草晶華)". For the manufacturing of our own-branded products, we have two self-owned GMP certified production plants located in Zhongshan with an aggregate gross floor area of approximately 46,700 sq.m. All our pharmaceutical products comply with the relevant standards and registration requirements in the PRC. Our Chinese patent medicines are duly registered with the CFDA and our decoction pieces have met the standards of the Chinese Pharmacopoeia, the Drug Standards or standards pronounced by the GFDA.

- *Operation of chain pharmacies in Zhongshan*: We have been operating chain pharmacies in Zhongshan under our brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at the Latest Practicable Date, we had a total of 201 self-operated GSP certified chain pharmacies. According to the Ipsos Report, we are the largest self-operated pharmaceutical chain in Zhongshan in terms of the number of pharmacies and revenue for three consecutive years from 2012 to 2014. During the Track Record Period, a majority of our revenue generated from our operations of chain pharmacies was derived from the sale of non-own branded products. As at the Latest Practicable Date, we sold over 5,000 types of non-own branded products including Chinese patent medicines, Western medicines, medical devices and healthcare products (such as vitamins, mineral supplements and protein powder) sourced from independent GMP certified pharmaceutical manufacturers or GSP certified suppliers (including pharmaceutical wholesalers and distributors). In our chain pharmacies, we also sell our own-branded pharmaceutical products developed and manufactured by us. For the three years ended 31 December 2014, the revenue generated from the sale of our own-branded products in our chain pharmacies represented approximately 22.9%, 24% and 23.7% of our total revenue derived from our chain pharmacies.

Our Directors believe that our success was mainly attributed to our well established reputation for manufacturing quality pharmaceutical products under our own brands, our extensive distribution network in the PRC and our leading market position of our chain pharmacies in Zhongshan. Our total revenue for each of the three years ended 31 December 2014 was approximately RMB410.1 million, RMB482.8 million and RMB595.6 million respectively, representing a CAGR of approximately 20.5%.

The following table sets forth the revenue of our two business segments for each of the three years ended 31 December 2014:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Pharmaceutical manufacturing	172,240	42.0	207,262	42.9	294,840	49.5
Operation of chain pharmacies	237,812	58.0	275,543	57.1	300,725	50.5
Total Revenue	410,052	100.0	482,805	100.0	595,565	100.0

Note: Our own-branded products are sold under both of our business segments.

For each of the three years ended 31 December 2014, we derived all our revenue in the PRC and mainly from the Guangdong province, which accounted for approximately 72.8%, 71.9% and 65.8% of our Group's total revenue, respectively.

Our own-branded products

We manufacture and sell Chinese patent medicines and decoction pieces under our core brands of "Zeus (中智)", "Liumian* (六棉牌)" and "Caojinghua* (草晶華)". Our own-branded products are sold in our self-operated chain pharmacies and on a wholesale basis to our distributors and independent chain pharmacies. For each of the three years ended 31 December 2014, the revenue derived from our own-branded products was approximately RMB226.5 million, RMB273.4 million and RMB366.1 million, representing approximately 55.2%, 56.6% and 61.5% of our Group's total revenue for the respective years.

As at the Latest Practicable Date, we launched 35 types of own-branded Chinese patent medicines (of which 27 types are OTC medicines) and 158 types of decoction pieces in the PRC market. Our major own-branded Chinese patent medicines include Cough Tablets* (克咳片), Cool Lozenges* (清涼喉片) and Yinhuang Granules* (銀黃顆粒). Our decoction pieces are intended for health maintenance and improvement. With an aim to enhance the functional effectiveness of traditional decoction pieces and for consumption convenience, we have applied our patented techniques for the manufacturing of modern decoction pieces which have been launched in the PRC market since 2011. Our modern decoction pieces can be readily used for oral consumption whereas traditional decoction pieces generally require boiling before consumption. Our major modern decoction pieces include dendrobium (石斛), sanqi (三七) and red sage root (丹參). The success of our products can be reflected by the increase in revenue derived from own-branded products from approximately RMB226.5 million to approximately RMB366.1 million, representing a CAGR of approximately 27.1%, from 2012 to 2014.

Distribution of our own-branded products

We distribute our own-branded products across the PRC through an extensive distribution network comprising of contractual distributors, non-contractual distributors and independent chain pharmacies. We require that all our distributors and independent chain pharmacies customers are GSP certified. As at 31 December 2014, we had 523 contractual distributors comprising 68 upper-level distributors and 455 lower-level distributors; 588 non-contractual distributors and 381 independent chain pharmacies for the distribution of our own-branded products, covering 30 provinces, autonomous regions and municipality cities in the PRC. This distribution arrangement enables us to focus our resources on research and development, manufacturing, and marketing of our own-branded products because we do not need to maintain an extensive logistics network covering different regions in the PRC at our own expenses. We also believe that we can benefit from our distributors' established distribution channels, independent chain pharmacies' retail networks and their resources to enhance and expedite the market penetration of our products within a short period of time.

Our pricing policy

We primarily price our products on a cost plus basis with reference to the prevailing market conditions such as changing demands from customers, pricing and availability of comparable products in the market, competitions and with respect to some of the non-own branded products sold in our chain pharmacies, the recommended prices set by the relevant pharmaceutical suppliers. During the Track Record Period, over 800 types of the non-own branded products sold in our chain pharmacies and 18 types of our own-branded Chinese patent medicines, including some of our major products such as Cough Tablets* (克咳片), Yinhuang Granules* (銀黃顆粒) and Yinqiao Detoxification Granules* (銀翹解毒顆粒) were included in the National Medical Insurance Drugs Catalogue or Provincial Medical Insurance Drugs Catalogue, and/or National List of Essential Drugs and were subject to the relevant pricing policies. Hence, these products could not be sold above their maximum retail prices as imposed by the PRC government. For each of the three years ended 31 December 2014, we recorded revenue of approximately RMB152.8 million, RMB167.2 million and RMB171.5 million from the sale of these products, which accounted for approximately 37.3%, 34.6% and 28.8% of our total revenue, respectively. The PRC government's price control policies did not have material adverse impact on our Group during the Track Record Period.

Pursuant to the Drug Pricing Reform Notice, the price controls on all pharmaceutical products, except for anesthetics and some types of psychiatric drugs, were lifted with effect from 1 June 2015. This move aims to improve the purchasing mechanism of pharmaceutical products in the PRC and allow their selling prices to be determined by the market. Accordingly, all our pharmaceutical products are not subject to any government price controls. Our Directors believe that our Group will be more flexible in product pricing. We also envisage that most pharmaceutical manufacturers will commence the production and sale of those popular or essential pharmaceutical products which were used to be subject to price control. As a result, we may face increasing competition from these pharmaceutical manufacturers in respect of our Chinese patent medicines which were previously under government price controls. Whilst we are free to price these products, their profitability may

or may not be improved and would be affected by the prevailing market conditions such as demands, competitions and availability of comparable products. To maintain our competitiveness, we will continue to expand our product portfolio and further strengthen our research and development capabilities in order to improve our product quality and develop products that are unique, highly competitive and with high profit margin.

Research and development

Leveraging on the strength of our research and development team, up to the Latest Practicable Date, we had developed and maintained 125 types of new pharmaceutical products, which have been approved for production by the relevant government authorities but are yet to be launched in the market. As at the Latest Practicable Date, we had successfully registered in the PRC 29 invention patents (發明專利), one utility model patent (實用新型專利) and 15 design patents (外觀設計專利) in relation to our own-branded products. In April 2014, we were approved by the State Administration of Traditional Chinese Medicine of the PRC (國家中醫藥管理局) to establish a State-level laboratory for the development of the techniques and applications of modern decoction pieces. This laboratory was put into use by the end of 2014.

COMPETITIVE STRENGTHS

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

"Zeus (中智)" is a well established brand in the pharmaceutical industry

According to the Ipsos Report, we are the largest self-operated pharmaceutical chain in Zhongshan in terms of the number of pharmacies and revenue for three consecutive years from 2012 to 2014. We set up our first "Zeus Chain Pharmacy* (中智大藥房)" in Zhongshan for the sale of pharmaceutical products and healthcare products in 2001. Since then, our Zeus (中智) chain pharmacies have gained recognition in Zhongshan.

On the other hand, our core brands "Zeus (中智)", "Liumian* (六棉牌)" and "Caojinghua* (草晶華)" have gained increasing recognition among consumers and medical practitioners. This can be reflected by the increase in sales of our own-branded products from approximately RMB226.5 million to approximately RMB273.4 million from 2012 to 2013, and further to approximately RMB366.1 million for the year ended 31 December 2014, representing a CAGR of approximately 27.1% from 2012 to 2014. Our Directors believe that our Group has established creditability, recognition and acceptance by our business partners and consumers.

In light of the above, our Directors believe that the strong brand recognition has supported and will continue to support our business growth by providing a significant foundation for the promotion of both of our own-branded products and our chain pharmacies.

We have strong marketing capabilities and an extensive distribution network, which allows us to achieve efficient distribution of our own-branded products to consumers across the PRC and enable us to closely monitor market demand of our products

We had established an extensive sales and distribution network for selling and distributing our own-branded pharmaceutical products to 30 provinces, autonomous regions and municipality cities across the PRC during the Track Record Period.

As at 31 December 2014, we had 523 contractual distributors, 588 non-contractual distributors and 381 independent chain pharmacies operators for the distribution of our own-branded products.

Our extensive distribution network has not only enabled us to cost-effectively market our own-branded products but also allowed us to achieve high level of efficiency in the distribution of our own-branded products to all market levels across the PRC. We can benefit from the established sales and distribution networks of our distributors and retail networks of our independent chain pharmacies. This has enhanced and expedited the market penetration of our own-branded products and enabled us to launch new products to the market within a comparatively short period. Our Directors also believe that chain pharmacies can provide a direct and effective channel to promote and sell our own-branded products, in particular new products, to the consumers.

We are able to generate a high profit margin from our own-branded modern decoction pieces

The gross profit margin of our own-branded products was approximately 52.9%, 55.8% and 61.9% respectively for each of the three years ended 31 December 2014 as compared to 37.5%, 41.5% and 40.9% respectively for our non-own branded products. Our Directors believe that we are able to generate a relatively high gross profit margin from our own-branded products primarily because we are committed to the research, development and manufacturing of new products and the continuous improvement of our product quality. One of our major research and development projects was on the application and development of the techniques related to modern decoction pieces, which in our opinion, enhances the functional effectiveness of traditional decoction pieces. During the Track Record Period, we received a satisfactory market response to our modern decoction pieces, which are sold at higher prices and thus, enable us to generate higher gross profit margins than traditional decoction pieces. For each of the three years ended 31 December 2014, the gross profit margin of our own-branded modern decoction pieces were approximately 80.3%, 78.3% and 77.6%, respectively.

Furthermore, we sell our modern decoction pieces to independent chain pharmacies which then directly sell our products to consumers. This eliminates intermediaries in the distribution chain and thus enhances the efficiency of distribution as well as profitability of our own-branded products.

We maintain a stringent quality control system

We recognise the importance in maintaining high quality of both our products and the services we rendered to our customers. We have therefore adopted stringent standards and measures in relation to the quality control of our products and services. In particular, our "Zeus (中智)" brand products are renowned for their high product quality.

In respect of the operation of our chain pharmacies, all our chain pharmacies have GSP certification. We strictly follow the GSP requirements and we had not experienced any compulsory suspension, termination or cessation of our GSP certification in any of our chain pharmacies during the Track Record Period.

In respect of the manufacturing of our own-branded products, we strictly follow the GMP requirements. We have devised a complete set of quality control guidelines covering different stages of production in order to ensure product safety and maintain our quality standards. Our quality control procedures commences from the selection of suppliers and procurement of raw materials to the inspection of products before delivery and sales of the products to our customers. We had not experienced any compulsory suspension, termination or cessation of our GMP certification in any of our two production plants during the Track Record Period.

We have maintained long term relationships with most of our suppliers. This would provide a stable supply of quality raw materials for our manufacturing and merchandise for resale in our chain pharmacies. For further details, see the paragraphs respectively headed "Business — Quality control — Operation of chain pharmacies" and "Business — Quality control — Pharmaceutical manufacturing" in this [REDACTED].

As at the Latest Practicable Date, we had a total of 73 quality control staff members. We believe that our quality control efforts will continue to help us maintain and enhance our reputation and market position.

We have strong research and development capabilities and are able to develop new products and respond swiftly to changing market trends and demands

We adopt a market-oriented approach in developing our own-branded pharmaceutical products in order to keep abreast of changing market trends and consumer preference. Hence, our research and development projects are primarily aimed at (i) enhancing the quality and effectiveness of our existing pharmaceutical products; (ii) developing and expanding our pool of new pharmaceutical products; (iii) improving our production effectiveness and efficiency; and (iv) cultivating our research and development personnel.

During the past years, we strategically focused our research and development on decoction pieces to enhance their functional effectiveness. Among the 29 invention patents (發明專利) registered by us in the PRC, three of them are related to the manufacturing of certain types of modern decoction pieces. All our modern decoction pieces have met the quality standards promulgated by the GFDA.

In accordance with the Letter of State Chinese Medicine Technology [2014] No. 26* (國家中醫藥科技函 [2014] 26號文) issued by the State Administration of Traditional Chinese Medicine of the PRC (國家中醫藥管理局) in April 2014, we were given the approval to set up a laboratory for the development of "modern decoction pieces techniques and applications". This is a State-level authorised modern decoction pieces laboratory. Apart from our in-house research and development team, we have also formed collaborations with various research institutions and universities in the PRC to jointly develop new pharmaceutical products and production techniques. By doing so, we can benefit from their expertise, skills, resources and knowledge in these areas.

Leveraging on our strong research and development capabilities, we have developed a pool of products including Chinese patent medicines and modern decoction pieces. Up to the Latest Practicable Date, we have obtained approvals from the relevant government authorities for the production of a total of 60 Chinese patent medicines, 196 types of traditional decoction pieces and 62 types of modern decoction pieces, of which 35, 136 and 22 types have been launched in the market, respectively. We will launch other registered or approved products in the market at the time when our Directors find suitable, depending on the prevailing consumer preferences and market demands.

Our Directors believe that this diversified product portfolio enables us to meet the changing needs of consumers in different age groups and with different consuming powers as well as to maintain our competitiveness in the market.

We have an experienced and committed management team

Our Directors believe that our success to date is attributable to our experienced, goal-oriented and stable management team with a proven track record in the PRC pharmaceutical industry. Our management team has comprehensive and extensive experience in different areas of the pharmaceutical industry. Their experience ranges from research and development to manufacturing and to marketing different types of pharmaceutical products in the PRC. Our Chairman and executive Director, Mr. Lai, has over 30 years of experience in the pharmaceutical industry. Members of our management team have, on average, over ten years of experience in the pharmaceutical industry in the PRC. We believe that our management team will continue to implement our strategies for sustainable growth in the pharmaceutical industry in the PRC.

BUSINESS STRATEGIES

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

We plan to expand our chain pharmacies in the Guangdong province

We believe that we are well-positioned to take advantage of the significant growth potential in the PRC pharmaceutical industry. According to the Ipsos Report, our chain pharmacies accounted for approximately 16.3% of the market share in Zhongshan in 2013. Leveraging on our experience and established reputation in chain pharmacies operations, we intend to expand the network of our chain pharmacies in the Guangdong province by establishing self-operated pharmacies in other cities such as Jiangmen, Zhuhai and Dongguan. For details of our expansion plan, please refer to the "Future Plans and Use of Proceeds" section in this [REDACTED]. By establishing a presence in other cities, our Directors believe that it will enable us to build up our brands in cities outside Zhongshan as well as to serve as an effective channel to promote our new products in the market. Currently, we mainly rely on independent chain pharmacies to promote and sell our new products directly to consumers outside Zhongshan. Our Directors also believe that by establishing self-operated chain pharmacies in cities outside Zhongshan will reduce our reliance on independent chain pharmacies for the promotion and sale of our products directly to consumers and will also improve our profitability in the future.

We plan to expand the breadth and depth of our distribution network

We plan to expand our distribution network by increasing both the number of distributors and independent chain pharmacies operators, thereby enabling us to further penetrate into our existing markets, in particular the Eastern and Southern China.

We believe that an expansion of our distribution network will allow us to have access to a large consumer base and therefore achieve higher sales and market share for our own-branded products. We also plan to strengthen our sales and marketing team by recruiting more sales staff to support the expansion of our distribution network and also to further enhance the management and efficiency of our distribution network.

We plan to expand our production capacity

During the Track Record Period, revenue from the sale of our own-branded products amounted to approximately RMB226.5 million, RMB273.4 million and RMB366.1 million, respectively. Our Directors believe that the growth in the sales of our own-branded products in the PRC will continue in the near future taking into account the increasing public awareness on their health condition and well-being. We therefore believe that it is crucial for us to

enhance our production capacity in order to capture more opportunities in the growing market. In this connection, we intend to purchase additional machineries and equipment for the manufacturing of our Chinese patent medicines and decoction pieces.

We plan to further strengthen our research and development capabilities and product range

Our research and development projects will continue to focus on the development and application of techniques to enhance the functional effectiveness of different kinds of modern decoction pieces.

We intend to hire 50 to 60 additional experienced personnel with relevant sound academic background for our research and development team. We will continue to collaborate with research institutions and universities in the PRC to develop the techniques and know-how in the development and manufacturing of new pharmaceutical products and refine our existing ones in terms of their production process, effectiveness and forms in order to benefit from the expertise, skills, resources and knowledge of these research partners.

We plan to further strengthen our brand recognition and awareness by enhancing our marketing and promotional activities

We plan to increase our budgets on various advertising channels mainly through television, newspapers, medical journals and sponsoring certain pharmaceutical conferences to promote (i) our core brands including "Zeus (中智)", "Liumian* (六棉牌)" and "Caojinghua* (草晶華)"; (ii) our own-branded products; and (iii) our chain pharmacies. We believe that this will enhance our brand image and awareness in the consumer market and thus increase our sales volume.

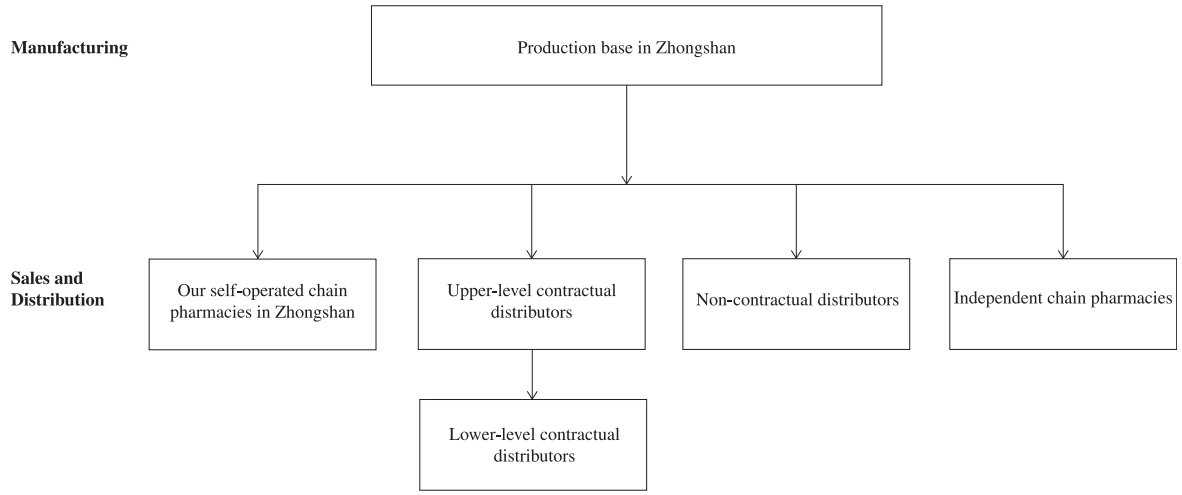
OUR BUSINESS SEGMENTS

Our operations can be divided into two segments in the PRC pharmaceutical industry, namely (i) pharmaceutical manufacturing; and (ii) operation of chain pharmacies in Zhongshan.

Revenue derived from our pharmaceutical manufacturing amounted to approximately RMB172.2 million, RMB207.3 million, and RMB294.8 million for the each of the three years ended 31 December 2014, which represented approximately 42%, 42.9% and 49.5% of our Group's total revenue, respectively, for the respective periods. Revenue derived from our operation of chain pharmacies in Zhongshan amounted to approximately RMB237.8 million, RMB275.5 million, and RMB300.7 million for the each of the three years ended 31 December 2014, which represented approximately 58%, 57.1% and 50.5% of our Group's total revenue, respectively, for the respective periods.

PHARMACEUTICAL MANUFACTURING

The following diagram illustrates the business model of our pharmaceutical manufacturing:



Our own-branded products

We engage in the research and development, manufacturing, sale and distribution of own-branded pharmaceutical products. As at the Latest Practicable Date, we produced two types of pharmaceutical products namely, Chinese patent medicines and decoction pieces. The core brands of our pharmaceutical products are "Zeus (中智)", "Liumian* (六棉牌)" and "Caojinghua* (草晶華)".

The following table sets forth the revenue from the sale of our own-branded products in these two categories for each of the three years ended 31 December 2014, their respective percentages to the total revenue derived from the sales of our own-branded products:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Chinese patent medicines	166,771	73.6%	167,418	61.2%	169,952	46.4%
Decoction pieces	59,776	26.4%	105,934	38.8%	196,157	53.6%
Total	226,547	100.0%	273,352	100.0%	366,109	100.0%

During the Track Record Period, our sales were not affected by seasonality.

Chinese patent medicines

As at the Latest Practicable Date, we sold 35 types of Chinese patent medicines, of which 27 are OTC medicines. Our Chinese patent medicines are intended to treat different illnesses such as cough, throat inflammation, indigestion and common cold.

All our Chinese patent medicines are duly registered with the CFDA and manufactured in accordance with the formula set out in the monographs in the Chinese Pharmacopoeia or the Drug Standards. Each monograph details the exact ingredients that make up the patent formula, the proportion of each ingredient, specific cautions, contraindications and production processes in relation to a particular type of Chinese patent medicine.

Seven of our Chinese patent medicines are protected by our invention patents (發明專利) registered in the PRC, namely Cough Tablets* (克咳片), Shiqi Waigan Granules* (石岐外感顆粒), Seven Star Tea Oral Solution* (小兒七星茶口服液), Menthol and Eucalyptus Oil Buccal Tablets* (薄荷桉油含片), Osteophyte Pain Relief Capsules* (骨刺消痛膠囊), Dangshen and Milkvetch Root Oral Solution* (參芪口服液) and Milkvetch Root and Jujube Oral Solution* (芪棗口服液). Our invention patents protect certain processing techniques including steaming, drying, emulsification and sedimentation for the production of these products. Cough Tablets* (克咳片) were our major Chinese patent medicines during the Track Record Period, in terms of sales revenue and volume.

Sales of our own-branded Chinese patent medicines amounted to approximately RMB166.8 million, RMB167.4 million and RMB170 million for each of the three years ended 31 December 2014 respectively, accounted for approximately 73.6%, 61.2% and 46.4% of the total revenue derived from the sales of our own-branded products for the respective years. Our own-branded Chinese patent medicines are sold mainly in our self-operated chain pharmacies and to our distributors.

The following were our major own-branded Chinese patent medicines for the year ended 31 December 2014:

Product Name		Intended functions	Year of launch	OTC/ prescription medicines	Medicine registration certificate number	Expiration date of product approval	National List of Essential Drugs *(Note 1)*	National/ Provincial Medical Insurance Drugs Catalogue *(Note 2)*	For the year ended 31 December 2014		
									Average unit selling price *(Note 3)*	Sales volume	Sales revenue
									(RMB)	(Thousand packs)	(RMB'000)
Cough Tablets* (克咳片) *(Note 4)*		Relieves cough	2005	OTC	Z20050690	29 September 2015	No	Yes	5.2	5,912	30,577
Cool Lozenges* (清凉喉片)		Relieves sore throat	2002	OTC	Z44020180	29 January 2020	No	No	1.0	23,335	23,581
Yinhuang Granules* (銀黃顆粒) *(Note 5)*		Clears heat and relieves sore throat	2005	OTC	Z20053526	31 May 2020	No	Yes	3.0	6,250	18,878
Anti-Inflammatory Cough Tablets* (消炎止咳片)		Reduces inflammation and relieves cough	2005	OTC	Z20054832	29 September 2015	No	No	1.0	10,367	10,474
Yinqiao Detoxification Granules* (銀翹解毒顆粒) *(Note 5)*		Clears heat and detoxification	2002	OTC	Z44020191	9 February 2020	Yes	Yes	4.6	2,246	10,234

Notes:

1. Government controls on the retail prices of the products included in the National List of Essential Drugs were lifted with effect from 1 June 2015.
2. All or part of the costs for the products listed on the National Medical Insurance Drugs Medicines Catalogue/Provincial Medical Insurance Drugs Catalogue are reimbursed by the national basic medical insurance fund. Government controls on the retail prices of these products were lifted with effect from 1 June 2015.
3. The average unit selling price is calculated by dividing the total revenue from wholesale and retail sale of our major own-branded Chinese patent medicines by their respective sales volume.
4. The Chinese patent medicine is listed on Part B of the National Medical Insurance Drugs Catalogue.
5. The Chinese patent medicines are listed on Part A of the National Medical Insurance Drugs Catalogue.

Among our major own-branded Chinese patent medicines, Cough Tablets* (克咳片) are protected by our registered patent. For details of this patent, please refer to the paragraph headed "Intellectual Property Rights — Patents" in Appendix V headed "Statutory and General Information" to this [REDACTED]. The shelf lives of our Chinese patent medicines are generally 24 months.

Decoction pieces

In the Chinese community, decoction pieces have been traditionally used as supplements for health improvement and maintenance. As at the Latest Practicable Date, we sold 158 types of own-branded decoction pieces, of which 136 types are traditional decoction pieces and 22 types are modern decoction pieces. Sales of our own-branded decoction pieces amounted to approximately RMB59.8 million, RMB105.9 million and RMB196.2 million for each of the three years ended 31 December 2014 respectively, which accounted for approximately 26.4%, 38.8% and 53.6% of the total revenue derived from sales of our own-branded products. Our decoction pieces are sold in our self-operated chain pharmacies and independent chain pharmacies. All our decoction pieces are filed in the system of GFDA and follow standards of the Chinese Pharmacopoeia or the Drug Standards or the standards pronounced by the GFDA, in relation to, among others, the respective standards of purity, description, testings on microbial limits, extractions, dosage, precaution and storage. The production of all our modern decoction pieces are protected by invention patent (發明專利), which is mainly related to additive-free granulation techniques after ultra-fine pulverisation of the relevant Chinese herbs. These patented techniques would not affect the conformity of our decoction pieces to the Chinese Pharmacopoeia or the Drug Standards or the standards pronounced by the GFDA.

The following table sets forth the revenue from the sales of our traditional and modern decoction pieces for each of the three years ended 31 December 2014, their respective percentages to the total revenue derived from the sales of our own-branded decoction pieces:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Traditional decoction pieces *(Note)*	37,367	62.5	40,479	38.2	39,631	20.2
Modern decoction pieces	22,409	37.5	65,455	61.8	156,526	79.8
Total	59,776	100.0	105,934	100.0	196,157	100.0

Note: Most of the revenue was derived from sales of our self-operated chain pharmacies.

The revenue derived from sales of our traditional decoction pieces represented 62.5%, 38.2% and 20.2% of our revenue derived from the sales of our own-branded decoction pieces and 9.1%, 8.4% and 6.6% of our total revenue for each of the three years ended 31 December 2014, respectively. Despite launching 136 types of our traditional decoction pieces in the market, revenue derived from our traditional decoction pieces was relatively low compared to our other own-

branded products. This can be explained by the reason that our traditional decoction pieces are mainly sold in our self-operated chain pharmacies in Zhongshan, whereas our other own-branded products are distributed throughout the PRC.

Traditional decoction pieces manufactured by us are sold in our self-operated chain pharmacies and are also used for the production of Chinese patent medicines and modern decoction pieces. The following table sets forth a breakdown of the volume of our traditional decoction pieces that are used for different purposes during the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
	tonnes	tonnes	tonnes
For direct sales	627	774	1,188
For the production of			
— Chinese patent medicines	1,604	1,496	1,168
— modern decoction pieces	33	83	184
Total	2,264	2,353	2,540

Traditional decoction pieces are usually used for the production of Chinese patent medicines by pharmaceutical manufacturers and diet therapy by making soups or cooking for general consumers. According to the Ipsos Report, during the past few years, pharmaceutical manufacturers had developed techniques such as ultra-fine pulverisation, additive-free granulation, extraction and concentration to provide various modern forms of decoction pieces for easy consumption, such as concentrated traditional Chinese medicines granules (中藥配方顆粒), syrup and paste of concentrated decoction pieces. With a view to enhancing the functional effectiveness and consumption convenience of traditional decoction pieces, we have commenced our research and development on the manufacturing of modern decoction pieces since 2003.

Our research and development team takes the view that the ingredients and functions of certain types of Chinese herbs can be better preserved in modern decoction pieces as compared to those in the traditional decoction pieces. For our manufacturing of modern decoction pieces, Chinese herbs are ultra-fine pulverised for breaking the cell walls of the herbs thus releasing the effective ingredients inside the cell, which can then be easily absorbed by the human body.

Plant products such as Chinese herbs can currently be pulverised by three commonly used methods in the pharmaceutical and healthcare products industry, namely (i) vibration grinding; (ii) jet stream ultra-fine pulverisation; and (iii) mechanic ultra-fine pulverisation. We choose the jet stream ultra-fine pulverisation for production of our modern decoction pieces because, in our opinion, (i) it provides a low temperature processing environment, which is suitable for Chinese herbs sensitive to heat; (ii) it produces very fine particles; and (iii) it would not contaminate the herbs being pulverised.

After ultra-fine pulverisation, the particles are combined to form granules. We developed and patented the additive-free granulation techniques (Patent number: ZL200610122171.7), which mainly utilise the adhesiveness of cell-broken Chinese herbs to form granules. For details of this patent, please refer to the paragraph headed "Intellectual Property Rights — Patents" in Appendix V headed "Statutory and General Information" to this [REDACTED]. Thanks to our additive-free granulation technique, surface areas of the granules would be reduced and the finished products are more resistant to moisture, mold and bacteria and therefore no preservatives have to be added to our products.

In 2011, the GFDA gave consent to Zhongzhi Herb Pieces the status of modern decoction pieces pilot production enterprise* (中藥破壁飲片試點生產企業). During the pilot period, Zhongzhi Herb Pieces is required to conduct researches on the clinical safety assessment and production quality control on modern decoction pieces and submit the relevant research reports. To the best knowledge and belief of our Directors, up to the Latest Practicable Date, apart from our Group, the GFDA had not yet granted pilot production status for same types of modern decoction pieces to any other enterprises. Our Directors believe that this status allows us to become the pioneer for the development of the quality standards of modern decoction pieces.

Our Directors also consider that this pilot status is a recognition of our research and development capability in the pharmaceutical industry. Also, it has strengthened our image as one of the market leaders in the development and production of modern decoction pieces. Our Directors believe that the pilot production status would also place us in a better position to entail more collaboration opportunities with profound universities and institutions in the PRC for developing both the know-how of our techniques in the production of new products and improving the quality standards of our existing products. However, the consent letter did not set out when the pilot period will end. Hence, the pilot production status of Zhongzhi Herb Pieces is subject to termination, prohibition, restrictions, limitation or suspension imposed by relevant authorities of the PRC in the future.

On 11 May 2015, the Sole Sponsor interviewed the director of the Division of Drug Safety and Supervision of GFDA, which is, as advised by our PRC Legal Advisors, the competent authority in charge of the pharmaceutical industry in the Guangdong province. The relevant officer verbally confirmed that (i) GFDA has no intention to terminate or revoke our pilot production status; (ii) there is no end date for our pilot production status; and (iii) GFDA currently does not have a timetable setting out when our pilot production status will become permanent. The Division of Drug Safety and Supervision of GFDA has various functions, including but not limited to, (i) guide the implementation of management standard of drug manufacturing; and (ii) undertake the licensing of drug manufacturing.

If our pilot production status is terminated or is subjected to any prohibitions, restrictions, limitations or suspensions, our research and development plan in relation to our modern decoction pieces may be hindered and we can no longer enjoy the privileges set out above. We may face fierce competitions from our competitors who may also develop and manufacture other forms of modern decoction pieces for sale in the market. If this happens, our business and operations would be adversely affected. For each of the three years ended 31 December 2014, revenue derived from the sales of our modern decoction pieces accounted for approximately 5.5%, 13.6% and 26.3% of our total revenue, respectively. Please refer to the paragraph headed "Risk Factors — Our status of modern decoction pieces pilot production enterprise may be subject to revocation, termination, suspension or alteration any time by the relevant authorities in the PRC." in this [REDACTED].

As at the Latest Practicable Date, our 62 types of modern decoction pieces had met the standards pronounced by the GFDA and 22 types of which had been launched in the market. As advised by our PRC Legal Advisors, as at the Latest Practicable Date, our modern decoction pieces complied with the relevant PRC laws and regulations for decoction pieces. There are no specific laws, regulations or standards in the PRC which are particularly devised for regularising or limiting the manufacture and sale of modern decoction pieces in the PRC.

Four types and three types of our modern decoction pieces were accredited as Guangdong province High and New Technology Products* (廣東省高新技術產品) by the Guangdong Provincial Bureau for Science and Technology (廣東省科學技術廳) respectively in 2009 and 2011.

Under the applicable PRC laws and regulations, foreign investors are prohibited from holding equity interest in entity engages in the production of decoction pieces. Accordingly, we are not allowed to hold any equity interest in Zhongzhi Herb Pieces. We entered into the Contractual Arrangements in order for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces transferred to Zhongzhi Pharmaceutical by means of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical. For details of the Contractual Arrangements, please refer to the "Contractual Arrangements" section in this [REDACTED].

The following are our major modern decoction pieces:

			For the year ended 31 December 2014		
Product name		**Intended functions**	**Average unit selling price**	**Sales volume**	**Sales revenue**
			(RMB)	**(Thousand cans)**	**(RMB'000)**
Red sage root modern decoction pieces* (丹參破壁飲片)		Eases pain, promotes blood circulation	19.3	754	14,563
American ginseng modern decoction pieces* (西洋參破壁飲片)		Reinforces vitality	66.7	212	14,140
Sanqi modern decoction pieces* (三七破壁飲片)		Heals bruises, stops bleeding and reduces swelling	48.1	286	13,755
Dendrobium modern decoction pieces* (石斛破壁飲片)		Invigorates stomach	84.8	148	12,565
Milkvetch root modern decoction pieces* (黃芪破壁飲片)		Nourishes vitality, promoting diuresis and reduces swelling	20.4	589	12,007

The production of all our modern decoction pieces are protected by our registered patent. For details of this patent, please refer to the paragraph headed "Intellectual Property Rights — Patents" in Appendix V headed "Statutory and General Information" to this [REDACTED]. The shelf lives of our decoction pieces range from 12 to 24 months.

Price ranges

The table below sets forth the wholesale price ranges of our own-branded products as at the Latest Practicable Date:

Product category	**Price ranges** *(Note)*
Chinese patent medicines	RMB1.2 to RMB75.0
Decoction pieces	
— Traditional decoction pieces	RMB5.5 to RMB2,720.0
— Modern decoction pieces	RMB12.5 to RMB280.0

Note: The price ranges are based on the smallest individual package as one unit and are inclusive of value added tax.

Production plants and facilities

As at the Latest Practicable Date, we had 315 employees in our two production plants. Our production plants were built on land properties owned by our Group in Zhongshan for the manufacturing of our pharmaceutical products. Our production plants had obtained the GMP certificates and their operation and management follows the GMP requirements.

The following table sets out details of our two production plants:

	Approximate total gross floor area (sq. m.)	**Products manufactured**	**Number of employees as at the Latest Practicable Date**
Honeson Pharmaceutical	25,730	Chinese patent medicines	145
Zhongzhi Herb Pieces *(Note)*	20,970	Decoction pieces	170

Note: We control the management and operation of Zhongzhi Herb Pieces through Contractual Arrangements. For details, please refer to the "Contractual Arrangements" section in this [REDACTED].

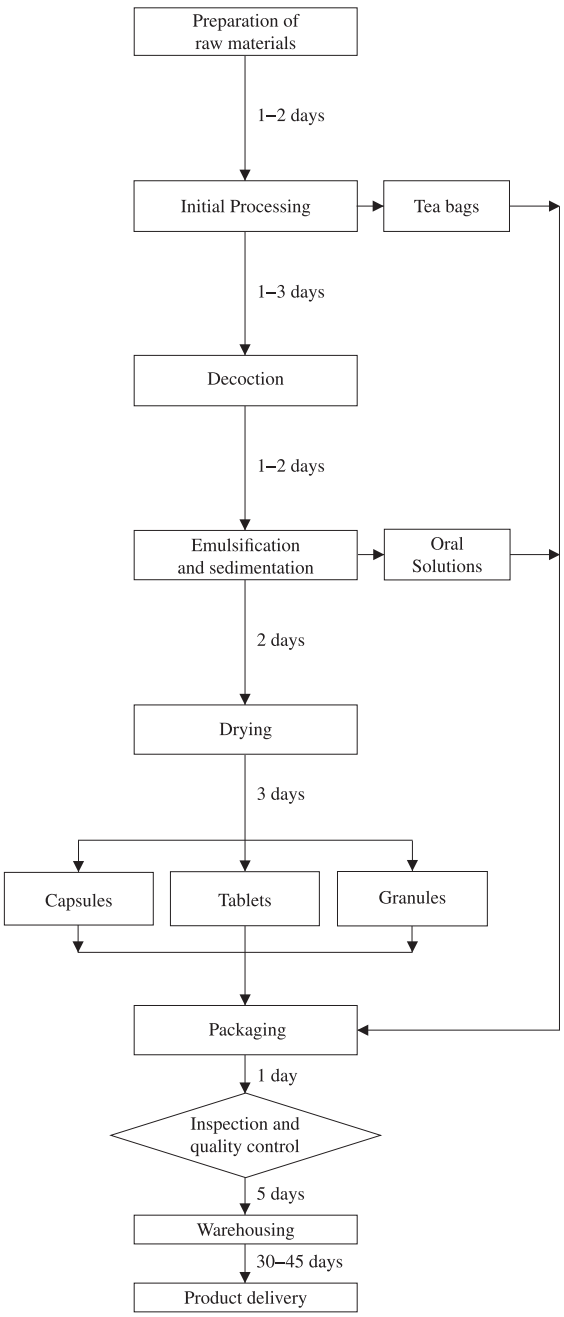
As advised by our PRC Legal Advisors, we have obtained all relevant and valid licences, permits and certificates for our pharmaceutical manufacturing. We also closely monitor quality assurance and safety control processes in the manufacturing of our products and we had not experienced any suspension or termination of our GMP certifications or any licences, permits or certificates necessary for the operation of our production plants during the Track Record Period. We believe that our manufacturing expertise and efficiency have enabled us to produce quality products in a cost-effective manner and to sell our products to our customers at competitive prices.

Production process

For the manufacturing of Chinese patent medicines, we have to follow the production methods and formula as set out in the Chinese Pharmacopoeia or the Drug Standards. The production process of our Chinese patent medicines typically involves the major steps set forth below:

Chinese Patent Medicines

- *Preparation of raw materials:*
  Based on the formula set out in the Chinese Pharmacopoeia or the Drug Standards, select and measure the required types and quantities of Chinese herbs and/or decoction pieces.
- *Initial processing*:*
  Cleaning, chopping, steaming and drying.
- *Decoction:*
  Extract the effective ingredients of the raw materials by boiling. The extracted solution is further condensed.
- *Emulsification and sedimentation*:*
  The concentrated solution is then mixed with alcohol and sedimented. Any impurities and alcohol will be removed leaving the desired herbal sediment layer for further processing.
- *Drying:*
  The herbal sediment is dried and grinded into powder.
- *Inspection and quality control:*
  Product testing with a focus on heavy metal and microbials levels.

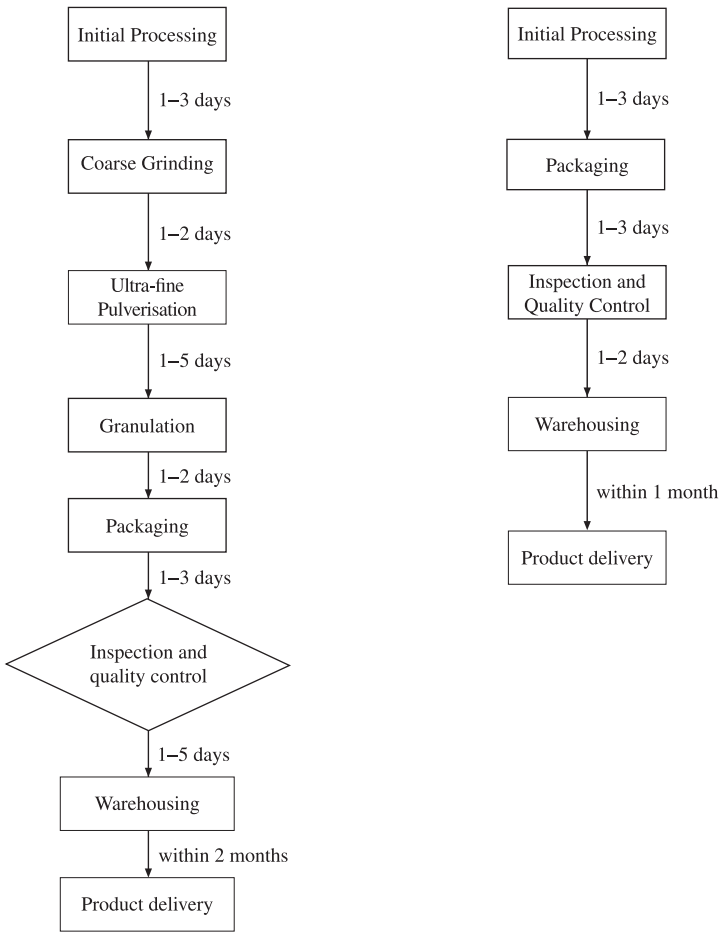


Note: As required by our quality control system, we perform quality checks before initial processing, during different stages of production process and after packaging.

* We registered invention patents (發明專利) for seven of our Chinese patent medicines to protect certain processing techniques including steaming, drying, emulsification and sedimentation for the production of these products.

The production process of our decoction pieces typically involves the major steps set forth below:

- *Initial Processing:* Cleaning, chopping, steaming, stir-frying, moxibustion, calcination and drying.
- *Coarse Grinding:* Herbs are ground into coarse powder grains.
- *Ultra-fine pulverisation:* Using the jet stream ultra-fine pulverisation.
- *Granulation:* The herb grains are then granulated using our patented additive-free technique.
- *Inspection and quality control:* Product testing with a focus on heavy metal and microbials levels.



Note: As required by our quality control system, we perform quality checks before initial processing, during different stages of production process and after packaging.

Production capacity and utilisation rate

The following table sets forth the designed capacity, actual production volume and utilisation rates of our production facilities for each of the three years ended 31 December 2014:

		For the year ended 31 December								
		2012			2013			2014		
	Unit	Designed capacity *(Note 1)*	Production volume	Utilisation rate *(Note 2)*	Designed capacity *(Note 1)*	Production volume	Utilisation rate *(Note 2)*	Designed capacity *(Note 1)*	Production volume	Utilisation rate *(Note 2)*
		(approximate unit)	(approximate unit)		(approximate unit)	(approximate unit)		(approximate unit)	(approximate unit)	
Chinese patent medicines										
Granule*(Note 3)*	bag	270,000,000	234,184,000	87%	270,000,000	214,228,000	79%	270,000,000	191,824,000	71%
Capsule	capsule	140,000,000	113,107,000	81%	140,000,000	134,928,000	96%	140,000,000	126,091,000	90%
Tablet	tablet	1,280,000,000	1,046,442,000	82%	1,280,000,000	1,074,688,000	84%	1,280,000,000	993,597,000	78%
Oral solution*(Note 4)*	bottle	15,000,000	9,642,000	64%	15,000,000	10,965,000	73%	15,000,000	16,026,000	107%
Tea bag*(Note 3)*	bag	5,300,000	4,800,000	91%	5,300,000	3,382,000	64%	5,300,000	3,501,000	66%
Decoction pieces										
Traditional decoction pieces	tonnes	2,561	2,264	88%	2,561	2,353	92%	2,561	2,540	99%
Modern decoction pieces*(Note 5)*	tonnes	53	30	57%	159	75	47%	212	165	78%

Notes:

(1) Designed capacity is computed based on 252 effective production days per year and one shift of seven hours per day for each of the three years ended 31 December 2014.

(2) The utilisation rate is calculated by dividing the production volume by the designed capacity.

(3) The utilisation rates for granules and tea bags for the two years ended 31 December 2014 were relatively lower than that of 2012. This reflected the decrease in the production volume of less popular Chinese patent medicines which were in the form of granules and tea bags.

(4) The actual production activities for oral solution in 2014 were conducted occasionally over seven hours per day to meet the demand for the relevant products, which resulted in the utilisation rate for oral solution in 2014 to exceed 100%.

(5) The utilisation rate related to the production of modern decoction pieces decreased from 57% for the year ended 31 December 2012 to 47% for the year ended 31 December 2013, primarily due to the increase in the designed capacity resulting from the acquisition of one jet stream ultra-fine pulverisation machine and one granulating machine in 2013.

Production machineries and equipment

Our production plants are equipped with a variety of machineries and equipment for various stages of the production process. The primary machineries and equipment that we use for production of Chinese patent medicines include the machines that process the medicine powder into various forms, boilers, granulating machines, capsule filling machines and tablet pressing machines. On the other hand, the primary machineries and equipment we use for production of modern

decoction pieces include jet stream ultra-fine pulverisation machines and granulating machines. As at the Latest Practicable Date, we had five jet stream ultra-fine pulverisation machines and three granulating machines.

In order to meet the increasing demands for our modern decoction pieces, we plan to further acquire five jet stream ultra-fine pulverisation machines and five granulating machines for the year ending 31 December 2016.

Our machineries and equipment were purchased in the PRC and have useful lives in average of ten years.

We implement strict repair and maintenance procedures for our major machineries and equipment. Our production team will conduct a routine checking on our machineries and equipment, in particular, their cleanliness and functions, before commencing production on a daily basis. Technicians of our engineering department conduct a checking on our machineries and equipment and subsequently fill in and submit the operation records on a monthly basis. Our engineers and technicians possess the required skills and experiences in repairing the machineries and equipment where malfunctions of which are detected or found. Our Directors confirm that during the Track Record Period, we had not experienced any significant interruptions in our production due to the breakdowns or contamination of our machineries or equipment.

As advised by our PRC Legal Advisors, we have obtained all necessary and relevant PRC approvals and permits in relation to our business, which primarily include the Pharmaceutical Manufacturing Permits, the GMP certificates and other required approvals and all such approvals and permits were valid as at the Latest Practicable Date.

Production plan

At the end of each year, our sales and finance department work together to prepare a monthly sales forecast for the coming year based on, *inter alia*, the actual sales performance of the current year; anticipated changes, if any, according to the latest market trend; and order indications received from our customers. Our production department will then formulate a monthly production plan for the coming year based on the sales forecast and our then prevailing production capability. Our procurement department is responsible for monitoring the inventory level of raw materials. Based on the production plan and the current inventory level, our procurement department will then procure raw materials on a timely basis to ensure that our production plans will not be interrupted due to a shortage of raw materials thus allowing us to be able to meet the demands from our customers.

Raw materials and suppliers

The principal raw materials used for production of our products are Chinese herbs (including red sage root (丹参), American ginseng (西洋参), sanqi (三七), milkvetch root (黄芪) and dendrobium (石斛)), packaging materials and ancillary materials including sucrose. The market prices of Chinese herbs may be affected by a number of factors including weather and harvest conditions and market demands. Our Directors confirm that there had not been any major fluctuation of market prices for these major raw materials during the Track Record Period. For each of the three years ended 31 December 2014, raw material costs amounted to approximately RMB64.7 million, RMB72 million and RMB89.1 million, representing approximately 29.2%, 29.6% and 32.4% of our Group's total cost of sales, respectively. We source Chinese herbs, packaging materials and ancillary materials from PRC suppliers who are Independent Third Parties. We commenced to import approximately 5.8 tonnes of American ginseng from Canada in 2014, for the production of our modern decoction pieces. For the year ended 31 December 2014, our revenue from the sales of our American ginseng decoction pieces amounted to approximately RMB0.6 million. We have obtained importation permits and quality inspection reports for the import of American ginseng. Save for this, all our raw materials are of PRC origin.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not encountered any quality issues on or shortages of Chinese herbs or other principal raw materials that we use for production, which would have adversely affected our manufacturing process.

Suppliers of Chinese herbs

Our Directors believe that it is important for us to ensure that the Chinese herbs we used for the production of our pharmaceutical products meet our requirements for quality and standards of safety. As required by the PRC law, all our Chinese herbs used for the production of Chinese patent medicines and decoction pieces are required to follow the standards set out in the Chinese Pharmacopoeia or Drug Standards. We require that our suppliers of Chinese herbs are either GMP certified manufacturers or GSP certified wholesalers in the PRC.

Under our stringent quality control system, we strive to control the origins of Chinese herbs by sourcing our major raw materials directly from the plantation bases. This ensures that the Chinese herbs are grown in the designated plantation areas where (i) the climates are most suitable for cultivation of good quality herbs, such as sanqi (三七) from the Yunnan province, red ginseng (紅參) from the Jilin province, in the PRC; and (ii) the Chinese herbs meet the safety levels of harmful substances or pollutants such as heavy metals and chemicals. For some of the plantation bases from where we source the Chinese herbs, we also set out our prerequisite standards for the uses of pesticides and fertilisers. Therefore, we can manage the quality and safety of the Chinese herbs used for our production from an early stage during cultivation. Since we can have close involvement during the cultivation and we also require inspection before harvesting, we are willing to pay a premium which we believe to be higher than the market norm, over the market price for certain types of the Chinese herbs used for our production. As at the Latest Practicable Date, we

entered into master agreements with 12 plantation bases operators for the supplies of 19 types of Chinese herbs and with Supplier A, one of our top five suppliers, for the supplies of various types of Chinese herbs for the production of our major products. The following table sets out the major terms of the master supply agreements with our suppliers for Chinese herbs:

Principal terms	Summary	
	Plantation bases operators	Supplier A
Term	From one year to five years and is renewable subject to negotiation	Two years and is renewable subject to negotiation
Specified types of Chinese herbs	Yes	No
Designated plantation areas	Yes	No
Purchase price	5–30% above market price	Not specified
Minimum purchase or supply amount	Not specified	Not specified
Payment terms	20 days after issue of invoice	20 days after issue of invoice
Delivery cost	To be borne by the suppliers	To be borne by the supplier
Inspection of Chinese herbs	Prior to harvesting of the Chinese herbs and upon receipt of the deliveries	Upon receipt of the deliveries
Specified quality standard	Yes. Including but not limited to: — compliance with GSP and GMP standards (where applicable) and Chinese Pharmacopoeia standards; — specified safety levels of pesticide residues, harmful substances such as heavy metals and chemicals	To be specified in separate purchase orders
Sales return	Allowed for quality reasons	Allowed for quality reasons
Termination	By either party if the other party is in breach of the terms of the agreement	By either party if the other party is in breach of the terms of the agreement

We believe that we have established good relationships with our suppliers of Chinese herbs, which enable us to maintain a reliable source of raw materials for production. In addition, to reduce our reliance on any single supplier, we generally have alternative sources of supply for every type of raw materials, therefore we do not anticipate there being significant difficulties for us in sourcing raw materials in the future.

Other suppliers

We do not enter into any master supply agreements or long term agreements with the suppliers of raw materials other than Chinese herbs as these raw materials are readily available in the market. To ensure better management of the availability of resources and our operations, we do not rely on any single major supplier and have at least two suppliers for each type of principal raw material as

well as packaging material respectively. Our Directors believe that by ensuring suitable alternative suppliers and raw materials, we will be able to minimise the risk of supply shortages and purchase raw materials for production at competitive prices.

Inventory of pharmaceutical manufacturing

The inventories of our operations primarily consist of raw materials, work-in-progress and finished goods. Our inventories are stored in accordance with GMP requirements. As some of our raw materials and finished products are temperature and humidity sensitive, warehouses in our factories are equipped with temperature and humidity control systems to maintain the quality and stability of such raw materials and finished products.

We use an enterprise resource planning system to track our inventory movements. This system enables us to monitor inventory levels in a timely manner so as to ensure that there would be a stable level of raw materials and finished products. We also conduct stock takes semi-annually. In order to minimise the risks of excess inventory held or shortages of raw materials in production, we regularly review our inventory levels and formulate corresponding policies, pursuant to which we manage our inventory according to different product types and their respective minimum inventory levels.

DISTRIBUTION CHANNELS OF OUR OWN-BRANDED PRODUCTS

Our own-branded products are sold in our self-operated chain pharmacies in Zhongshan and through an extensive distribution network comprising distributors and independent chain pharmacies outside Zhongshan. The following table sets forth a breakdown of the revenue of our pharmaceutical manufacturing by different distribution channels (other than our self-operated chain pharmacies) and their respective percentage during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Distributors						
— contractual *(Note)*	81,394	47.3	84,478	40.8	90,234	30.6
— non-contractual	61,038	35.4	69,478	33.5	57,156	19.4
	142,432	82.7	153,956	74.3	147,390	50.0
Independent chain pharmacies	29,808	17.3	53,306	25.7	147,450	50.0
Total revenue from pharmaceutical manufacturing	172,240	100.0	207,262	100.0	294,840	100.0

Note: These represented our sales to upper-level distributors as we do not sell directly to lower-level distributors.

Our distributors are broadly categorised into (i) contractual distributors which comprise upper- and lower-level distributors; and (ii) non-contractual distributors. All our distributors are Independent Third Parties.

The following sets forth the brief description of our distributors and independent chain pharmacies:

	Contractual distributors	**Non-contractual distributors**	**Independent chain pharmacies**
Distribution/master agreements with us	Yes	No	Yes
Nature of business	Pharmaceutical distribution corporations, wholesalers or pharmaceutical logistics companies	Mainly small-sized local pharmaceutical distributors and wholesalers	Operators of chain pharmacies outside Zhongshan
Types of our products being distributed	Mainly Chinese patent medicines except those we only sell to non-contractual distributors	A pool of Chinese patent medicines which are not sold to our contractual distributors or independent chain pharmacies	Mainly modern decoction pieces which are not sold to our distributors
Two-level Distribution Model	Comprising: (i) Upper-level distributors: — Mainly sizable pharmaceutical distribution corporations, wholesalers or pharmaceutical logistics companies and have maintained satisfactory track record with us — Our direct customers to whom we sell and deliver our products — They resell our products to other customers including our lower-level distributors (ii) Lower-level distributors: — Mainly smaller-sized pharmaceutical distributors and wholesalers or have relatively shorter relationship with us — Not our direct customers. They purchase our products from our designated upper-level distributors who directly sell and deliver the goods to them (iii) Relationship between upper- and lower-level distributors — Seller and buyer — Lower-level distributors can only purchase from our designated upper-level distributors and at prices not less than those set by us in the distribution agreements	N/A	N/A

The following map illustrates the geographical coverage of our distribution network as at the Latest Practicable Date:

Note:

- Refers to the provinces where we engaged distributors and/or independent chain pharmacies to distribute our own-branded products.

The following table sets forth the revenue from our pharmaceutical manufacturing by different regions in the PRC during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Southern China *(Note 1)*	65,458	38.0%	79,475	38.3%	106,425	36.1%
Eastern China *(Note 2)*	40,513	23.6%	43,155	20.8%	59,041	20.0%
Southwest China *(Note 3)*	14,363	8.3%	19,427	9.4%	47,621	16.2%
Central China *(Note 4)*	25,351	14.7%	31,689	15.3%	41,214	14.0%
Northern China *(Note 5)*	18,647	10.8%	17,320	8.4%	17,299	5.9%
Northeast China *(Note 6)*	4,486	2.6%	9,443	4.6%	15,757	5.3%
Northwest China *(Note 7)*	3,422	2.0%	6,753	3.2%	7,483	2.5%
Total revenue from pharmaceutical manufacturing	**172,240**	**100%**	**207,262**	**100%**	**294,840**	**100%**

Notes:

(1) Southern China: Guangdong, Guangxi and Hainan
(2) Eastern China: Shandong, Jiangsu, Anhui, Zhejiang, Fujian and Shanghai
(3) Southwest China: Sichuan, Yunnan, Guizhou, Tibet and Chongqing
(4) Central China: Hubei, Hunan, Henan and Jiangxi
(5) Northern China: Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia
(6) Northeast China: Liaoning, Jilin and Heilongjiang
(7) Northwest China: Ningxia, Xinjiang, Qinghai, Shaanxi and Gansu

(I) Distributors

According to the Ipsos Report, the PRC pharmaceutical distribution chain has customarily been fragmented to a large number of distributors of different sizes. We engage our distributors to sell and distribute mainly our own-branded Chinese patent medicines. They then resell our products to hospitals, medical clinics, wholesalers and retail pharmacies of various sizes. We believe our existing distribution model is in accordance with customary industry practice and allows us to (i) benefit from our distributors' established distribution networks and resources in the sale and distribution of our Chinese patent medicines and save the costs that would otherwise be incurred to build up our own logistics network across the PRC; and (ii) enhance and expedite the market penetration of our existing products and new products. As at 31 December 2014, we have a total of 1,111 distributors which are categorised as (i) contractual distributors; and (ii) non-contractual distributors covering 30 provinces, autonomous regions and municipality cities in the PRC. We require all our distributors (contractual and non-contractual) to be GSP-certified.

Revenue from our sales to our distributors amounted to approximately RMB142.4 million, RMB154 million and RMB147.5 million for each of the three years ended 31 December 2014 respectively, which accounted for approximately 82.7%, 74.3% and 50.0% of the total revenue generated from our pharmaceutical manufacturing respectively.

(a) Contractual distributors — Two-level Distribution Model

We enter into distribution agreements with our contractual distributors where we can manage their sales of our products in respect of their, *inter alia*, selling price, sales volume and geographical coverage through the terms in the distribution agreements. To ensure a more effective management of our distribution network, we maintain the "Two-level Distribution Model" comprising upper-level and lower-level contractual distributors. As at the Latest Practicable Date, we had 71 upper-level distributors and 396 lower-level distributors. Having adopted such an arrangement, we reduce the credit risk inherent in our sales as we only deal directly with the upper-level distributors, which are mainly reputable and established pharmaceutical distributors and wholesalers, and have maintained long and satisfactory trading record with us. Furthermore, we can benefit from the logistics resources of our upper-level distributors for the deliveries of our products to lower-level distributors, hence help saving our costs.

The following table sets forth the number of contractual distributors and the relevant movements during the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
Upper-level Distributors			
At the beginning of the period	62	59	70
Added during the period	13	22	7
Termination during the period *(Note)*	16	11	9
At the end of the period	59	70	68
Lower-level Distributors			
At the beginning of the period	355	270	502
Added during the period	154	316	209
Termination during the period *(Note)*	239	84	256
At the end of the period	270	502	455
Total at the end of the period	329	572	523

Note: Termination of contractual distributors during the Track Record Period was primarily due to their failure to meet our sales target; suspension or termination of their GSP certifications or mergers and consolidation of the distributors.

We have established business relationships with our major contractual distributors with a minimum of three years. For each of the three years ended 31 December 2014, our sales to contractual distributors were approximately RMB81.4 million, RMB84.5 million and RMB90.2 million, accounting for approximately 47.3%, 40.8% and 30.6% of our revenue derived from pharmaceutical manufacturing, respectively.

(i) *Upper-level Distributors*

Our major upper-level distributors include, Guangdong Dongguan Guoyao Group Co., Ltd.* (廣東省東莞國藥集團有限公司) and Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司) which were two of our top five customers for the year ended 31 December 2014. We generally appoint one to eight upper-level distributors in one territory in the PRC, depending on whether the distribution territory is at city or provincial level, for the sale and distribution of our products, mainly Chinese patent medicines. They then sell our products to hospitals, medical institutions, pharmacies and/or our lower-level distributors. Pursuant to the distribution agreements entered with our upper-level distributors, we do not designate our upper-level distributors to any lower-level distributors. However, in the distribution agreements with our lower-level contractual distributors, we generally assign each lower-level distributor to one to four upper-level distributors from whom they can purchase our products. For details of the terms of the distribution agreements with our upper- and lower-level distributors, please refer to the paragraph headed "Business — Distribution channels of our own-branded products — Distribution agreements" in this [REDACTED].

Save for the terms set out in the respective distribution agreements which our distributors have to comply with our upper- and lower-level distributors are free to negotiate terms of purchases between themselves. Based on the agreed terms, upper-level distributors directly sell and deliver to lower-level distributors at prices not less than those set out by us in the respective distribution agreements.

(ii) *Lower-level Distributors*

To increase our sales through the distribution network of our upper-level distributors, we will identify smaller-sized distributors or wholesalers in the designated territories of these upper-level distributors for the distribution of our products. These smaller-sized distributors or wholesalers become our lower-level distributors and directly purchase from our upper-level distributors. We enter into distribution agreements with our lower-level distributors in order to facilitate our management over them. The major terms include assigning to each lower-level distributor one to four upper-level distributors from whom they can purchase our products, restricting their sales of our products in designated territories and disallowing purchases from designated upper-level distributors at prices less than those set out by us. Our lower-level distributors usually choose to purchase our products from the respective upper-level distributors by taking into account the availability of inventories and other terms such as credit terms offered to them and/or delivery services offered by respective upper-level distributors from time to time.

The following table sets forth the number of our upper- and lower-level contractual distributors in different regions in the PRC at the Latest Practicable Date:

	Number of upper-level contractual distributors	**Number of lower-level contractual distributors**
Southern China *(Note 1)*	12	98
Eastern China *(Note 2)*	20	57
Southwest China *(Note 3)*	6	69
Central China *(Note 4)*	18	130
Northern China *(Note 5)*	6	34
Northeast China *(Note 6)*	3	—
Northwest China *(Note 7)*	6	8
Total	**71**	**396**

Notes:

(1) Southern China: Guangdong, Guangxi and Hainan
(2) Eastern China: Shandong, Jiangsu, Anhui, Zhejiang, Fujian and Shanghai
(3) Southwest China: Sichuan, Yunnan, Guizhou, Tibet and Chongqing
(4) Central China: Hubei, Hunan, Henan and Jiangxi
(5) Northern China: Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia
(6) Northeast China: Liaoning, Jilin and Heilongjiang
(7) Northwest China: Ningxia, Xinjiang, Qinghai, Shaanxi and Gansu

Distribution Agreements

Our relationships with upper-level distributors are of a seller/buyer relationship. We generally enter into standard distribution agreements with all our upper-level distributors, which specify terms such as deliveries, payments and sales targets. As for the lower-level distributors, we generally enter into a simplified version of distribution agreements with them containing a few key terms.

(i) *Major terms of our distribution agreements with upper-level contractual distributors*

Principal terms	Summary
Designated distribution territory	Yes
Designated types of Chinese patent medicines	Yes
Term	One year and is renewable subject to negotiation
Annual sales target qualified for rebate	Yes
Rebates	Yes, in the form of discount on products to be purchased in the future if the annual sales target is met. The discount is normally in the range of 2% to 3% of the wholesale price of the relevant products
Payment terms	Cash on delivery, credit terms of 30–45 days
Monthly product flow report from distributors	Yes
Specified minimum resell price	Yes
Minimum purchase amount	Not specified
Delivery costs	We bear the delivery costs
Sales return	Allowed only for quality reasons
Price adjustment clause	Yes. Subject to government pricing policy or other factors such as changes in material cost or technology changes
Termination	We are entitled to terminate the distribution agreements with our distributors when, *inter alia*, they (i) have materially breached any term of the distribution agreement, such as selling our products outside the designated distribution territory or selling our products below our suggested minimum sales price; (ii) have lost or been deprived of their relevant GSP certificates and other relevant licences for the distribution of pharmaceutical products; and/or (iii) have failed to make payments within the credit period.
Qualification and compliance requirements	Distributors are required to comply with all applicable laws and regulations, including maintaining a valid GSP certificate and if applicable, pharmaceutical supply permits.

(ii) *Major terms of our distribution agreements with lower-level contractual distributors*

Principal terms	Summary
Designated distribution territory	Yes
Designated types of Chinese patent medicines	Yes
Designated upper-level distributor(s)	Yes
Term	One year and is renewable subject to negotiation
Annual sales target qualified for rebate	Yes
Rebates	Yes, in the form of discount on products to be purchased in the future if the annual sales target is met. The discount is normally in the range of 1% to 2% of the wholesale price of the relevant products
Monthly product flow report from distributors	Yes
Minimum purchase price from upper-level distributor(s)	Yes
Specified minimum resell price	Yes
Minimum purchase amount	Not specified
Responsibilities of our Group	Our Group only provides the support services in relation to our products and will not take any responsibility in relation to any dispute or economic relationship between the upper-level and lower-level contractual distributors
Termination	No termination clause contained in the distribution agreement

Sales to hospitals and other medical institutions by contractual distributors

During the Track Record Period, we sold some of our Chinese patent medicines including Banlangen Granules* (板藍根顆粒), Yinhuang Granules* (銀黃顆粒) and Yinqiao Detoxification Tablets* (銀翹解毒片) to hospitals and other medical institutions through our contractual distributors. For the sale of these products, we had to go through the provincial government organised tender processes under statutory requirements before we sold these products to hospitals and other medical institutions through our distributors. Our staff members regularly visit the relevant government websites in order to obtain update information on the sourcing requirements of pharmaceutical products of different hospitals and medical institutions. In the tender documents, we designate distributors on the government list for the supply of our products to such hospitals and medical institutions. The selection of suppliers is based on a number of criteria including, but not limited to, tender price, product quality, pharmaceutical manufacturer's reputation and service quality. The successful tender prices are the procurement prices at which pharmaceutical product distributors have to sell the products to the public hospitals and medical institutions, and in part this determines the prices at which we sell our products to our distributors. We have a designated team responsible for participating in statutory tender processes. For each of the three years ended

31 December 2014, revenue from sales to hospitals and other medical institutions amounted to approximately RMB7.2 million, RMB16.6 million, RMB16.5 million, representing approximately 1.8%, 3.4% and 2.8% of our total revenue, respectively.

Pursuant to the Guiding Opinions on Enhancing Centralised Procurement of Pharmaceutical Products by 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》) which became effective on 9 February 2015, all drugs used by public hospitals, except decoction pieces shall be procured through the provincial centralised drug procurement platform. For details of the regulations on procurement of pharmaceutical products by medical institutions, please refer to the paragraph headed "Regulation — Collective tendering system for procurement of pharmaceutical products by medical institutions" in this [REDACTED]. Our Directors are of the view that under the new regulations, procurement prices of pharmaceutical products will become more apparent. As our sales to medical institutions during the Track Record Period were immaterial and that, our Group currently has no plans to expand our sales to hospitals and other medical institutions, our Directors are of the view that the new regulations will have no material impact on our business operations.

Upon successful tendering, we will enter into an agreement with the designated distributor who will then resell our products to the hospitals or medical institutions named in the tender.

(b) Non-contractual distributors

During the Track Record Period, we selected a pool of about ten types of our Chinese patent medicines for sale to our non-contractual distributors, who then resell the products to medical clinics, small-sized wholesalers and pharmacies in different parts of the PRC, except Zhongshan. In Zhongshan, we sell this pool of Chinese patent medicines in our self-operated chain pharmacies. These Chinese patent medicines generally have forms and/or packaging different from those being sold to contractual distributors and are sold at higher selling prices. For example, Yinhuang Granules* (銀黃顆粒) being sold to contractual distributors are in granules whereas Yinhuang Capsules* (銀黃膠囊) being sold to non-contractual distributors are in capsules and the packaging of Seven Star Tea Granules* (小兒七星茶顆粒) being sold to contractual and non-contractual distributors are different. The gross profit margins of the similar types of products being sold to non-contractual distributors can in general be higher than those being sold to contractual distributors. We believe that this sales strategy will increase the market share of our Chinese patent medicines and our profitability. We also engage our non-contractual distributors to launch and sell new products in order to test their market receptiveness. Our non-contractual distributors are mainly small-sized local distributors and they usually sell our products in the areas where they are located.

Although revenue derived from non-contractual distributors only accounted for approximately 14.9%, 14.4% and 9.6% of our Group's total revenue for each of the three years ended 31 December 2014, respectively, we consider that our non-contractual distributors are important to the development of our business as they enable our products to penetrate into different market segments in particular, to those consumers who have higher spending powers.

These non-contractual distributors are also important for us in promoting our products and building up our brands in new markets, such as the Western and Northern China where our presence is of a relatively short history and has less contractual distributors being engaged, as compared to those in the Eastern and Southern China. As our non-contractual distributors are of smaller size, they are more flexible in procurement and sales of our products. We do not accept return of goods except for quality reasons.

The following table sets forth the number of non-contractual distributors and the relevant movements during the Track Record Period:

	Year ended 31 December		
	2012	**2013**	**2014**
At the beginning of the period	220	690	633
Added during the period	567	276	279
Termination during the period *(Note)*	97	333	324
At the end of the period	690	633	588

Note: Termination of non-contractual distributors during the Track Record Period was primarily due to their performance, the suspension or their termination of their GSP certifications or mergers and consolidation of the distributors.

We do not enter into any distribution agreements with our non-contractual distributors. We sell to a diversified base of non-contractual distributors and sales to each of them are relatively small. As at 31 December 2014, we had 588 non-contractual distributors in different provinces, autonomous regions and municipality cities in the PRC. For each of the three years ended 31 December 2014, our sales to non-contractual distributors were approximately RMB61 million, RMB69.5 million and RMB57.2 million, accounted for approximately 35.4%, 33.5% and 19.4% of our revenue derived from pharmaceutical manufacturing, respectively. For the year ended 31 December 2014, the ranges of sales to non-contractual distributors and the respective percentage to the revenue derived from non-contractual distributors were set out as below:

	As at 31 December					
	2012		**2013**		**2014**	
Revenue range	**Number of distributors**	**% of revenue**	**Number of distributors**	**% of revenue**	**Number of distributors**	**% of revenue**
Over or equal to RMB1 million	5	12.1	4	19.9	7	24.1
Over or equal to RMB0.3 million and under RMB1 million	37	45.4	30	35.9	26	34.0
Over or equal to RMB50,000 and under RMB0.3 million	130	29.4	149	34.3	117	31.3
Under RMB50,000	518	13.0	450	9.9	438	10.6
Total	**690**	**100.0**	**633**	**100.0**	**588**	**100.0**

The following table sets forth the number of non-contractual distributors in different regions in the PRC as at the Latest Practicable Date:

Regions in the PRC	Number of non-contractual distributors
Southern China *(Note 1)*	170
Eastern China *(Note 2)*	86
Southwest China *(Note 3)*	39
Central China *(Note 4)*	64
Northern China *(Note 5)*	59
Northeast China *(Note 6)*	37
Northwest China *(Note 7)*	34
Total	**489**

Notes:
(1) Southern China: Guangdong, Guangxi and Hainan
(2) Eastern China: Shandong, Jiangsu, Anhui, Zhejiang, Fujian and Shanghai
(3) Southwest China: Sichuan, Yunnan, Guizhou, Tibet and Chongqing
(4) Central China: Hubei, Hunan, Henan and Jiangxi
(5) Northern China: Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia
(6) Northeast China: Liaoning, Jilin and Heilongjiang
(7) Northwest China: Ningxia, Xinjiang, Qinghai, Shaanxi and Gansu

All of our non-contractual distributors are required to place purchase orders with us and make full payment on products before delivery. For our major non-contractual distributors who have annual sales amount equal to or above RMB1 million for the year ended 31 December 2014, they have an average of four years of relationship with us.

We may consider promoting our non-contractual distributors to lower-level contractual distributors if their performance and their sales volume are satisfactory and/or when we consider that their sales network has potential for further expansion.

Criteria for selection of distributors

We select our distributors (including upper-level and lower-level contractual distributors and non-contractual distributors) who are able to meet our assessment criteria, including their industry track records, validity of their GSP certificates, reputations, credit standings (for contractual distributors to which credit terms are granted), years of operation, their sales networks and coverage, delivery capability, compliance record and financial strength. We keep track of the business licences and GSP certificates of each of our distributors from time to time.

Management of our distributors

Contractual Distributors

We manage and monitor the performances of our contractual distributors on an ongoing basis in respect of their compliance with the terms and conditions of the distribution agreements, in particular, our pricing policies and the restrictions on the sale of our own-branded products outside the designated distribution territories. Our sales staff visit both upper- and lower-level distributors

at least once a month and maintain frequent contact with them to keep track of the status of their business licences and GSP certificates and their inventory level of our Chinese patent medicines. By doing so, we can monitor the performance of our contractual distributors, and also obtain their feedback on the market perception of our own-branded products. We believe that these frequent visits will help nurturing our relationship with our contractual distributors. We can also ensure that growth in the sales of our own-branded products during the Track Record Period was mainly due to market demands rather than accumulation of inventories at the distributors' level. Other measures to ensure genuine market demand of our Chinese patent medicines mainly include (i) requiring cash on delivery for new and smaller-sized contractual distributors; (ii) giving rebates in the form of discount on products in succeeding purchases and based on actual proceeds received on products sold instead of in the form of cash; and (iii) not accepting the return of unsold products. For each of the three years ended 31 December 2014, the rebates given to our contractual distributors, in the form of discount on products, amounted to approximately RMB2.6 million, RMB3.5 million and RMB3.8 million, respectively.

We also review the monthly product flow reports from our contractual distributors and conduct random check on the sales invoices issued by them. The product flow reports and sales invoices set forth date of sale, names of customers to whom our contractual distributors sold, product names, sales prices, quantities and batch numbers. We will review the performance of each individual distributor on a regular basis. Based on the results of our reviews, we may decide whether to promote such lower-level distributors with established networks to upper-level distributors.

Non-contractual distributors

We do not enter into distribution agreements with our non-contractual distributors as (i) the purchase amounts and quantities from individual non-contractual distributors are comparatively small; and (ii) the functions of our non-contractual distributors are mainly for promotion and market testing of our new products and other products which are not being sold by our contractual distributors. Although we do not enter into any agreements with our non-contractual distributors, we monitor the performances of these distributors by a series of measures, such as on a monthly basis (i) tracking where each batch of our products is sold through the product serial numbers labelled thereon; (ii) paying visits to them to keep track on the status of their business licences and GSP certificates and the sales of our products; and (iii) reviewing the product flow reports from our non-contractual distributors and conducting random check on the sales invoices issued by our non-contractual distributors to their customers to ensure that they do not sell our products to their customers below the minimum selling prices provided by us. Though there are no distribution agreements entered into with these non-contractual distributors restricting their distribution territories, during the Track Record Period, our Directors were not aware of any competitions among non-contractual distributors of the same locations or locations in vicinity. The serial number labelled on each batch of our products enables us to check whether our products are sold by any individual non-contractual distributor to other regions, which may result in potential competition among non-contractual distributors. If we find any non-contractual distributor not following our policies, in particular, selling our products outside the areas where they are located, we may

terminate our relationship with them. All our sales to non-contractual distributors are fully paid before delivery. Accordingly, we do not have any credit risk in dealing with non-contractual distributors whilst ensuring a genuine market demand of our products. We do not accept return of goods from our non-contractual distributors other than for quality reasons. During the Track Record Period, there were no sales returns from our non-contractual distributors.

Mitigation of the risk of cannibalisation among distributors

To mitigate the risk of potential competition and cannibalisation, we have taken the following measures, which in our Directors' opinions, are effective: (i) monitoring and restricting the number of contractual distributors in any designated distribution area through the signing of distribution agreements with individual contractual distributors; (ii) disallowing contractual distributors to resell our products below the minimum price set by us; (iii) keeping track of any potential competition among our distributors by frequent communications with distributors and paying visits to them; (iv) keeping track of the sales of our products by reviewing the product flow reports obtained from individual distributor; and (v) having forms and/or packaging of the Chinese patent medicines being sold by our non-contractual distributors different from those being sold by our contractual distributors.

(II) Independent chain pharmacies

We mainly sell our modern decoction pieces to independent chain pharmacies outside Zhongshan, of which some of them are major operators in the market such as Yunnan Hongxiang Yixintang Pharmaceutical Co., Ltd.* (雲南鴻翔一心堂藥業(集團)股份有限公司). We require all of these independent chain pharmacies to be GSP certified. We generally enter into standard master agreements with independent chain pharmacies for a term of one year. The major terms include the designated territory for sale of our products, types and retail prices of our products and independent chain pharmacies not allowed to sell our products below the retail price set by us. We generally grant credit terms ranging from 30 to 45 days to independent chain pharmacies for the sale of our products.

Revenue from the sale of our own-branded products (including modern decoction pieces and Chinese patent medicines) to these independent chain pharmacies amounted to approximately RMB29.8 million, RMB53.3 million and RMB147.4 million for each of the three years ended 31 December 2014 respectively, which accounted for approximately 17.3%, 25.7% and 50% of the total revenue generated from our pharmaceutical manufacturing segment respectively. As at the Latest Practicable Date, we sold to 386 independent chain pharmacies for the distribution of our modern decoction pieces, the majority of which are located in the Guangdong province. Our Directors believe that the distribution of our products through independent chain pharmacies is an effective channel to promote our new products as sales persons in pharmacies can explain face-to-face to retail customers the characteristics of our products and directly promote our products. Furthermore, this would eliminate intermediaries in the distribution chain and thus enable us to improve our profitability.

Our sales and marketing team

For our pharmaceutical manufacturing, our sales and marketing team was led by Mr. Cao and comprised 326 full time sales staff as at the Latest Practicable Date. For details of the biography of Mr. Cao, please refer to the "Directors and Senior Management" section in this [REDACTED]. Our sales staff are responsible for the sales and marketing of the assigned type of products in assigned geographical locations. Our sales staff are mainly local residents of their assigned locations. Our Directors believe that this allows a cost effective and efficient management of our distributors and independent chain pharmacies in their assigned regions.

Our sales staff visit our distributors and independent chain pharmacies on a regular basis to ensure that they maintain valid business licences and GSP certificates and in particular, for contractual distributors, are in compliance with the terms of distribution agreements. Our sales staff keep themselves updated of the business and financial performances of our distributors and independent chain pharmacies, sales and market responses of our products and, market trends of the pharmaceutical industry. Our sales and marketing team also convene seminars on a regular basis to sales persons of independent chain pharmacies to enhance their knowledge of our products. In formulating marketing and promotion strategies for a particular type of product, our sales and marketing department may, if necessary, consult our research and development team regarding the functions and characteristics of the products.

Our sales staff are remunerated by basic salaries and commissions based on their sales performances and the sales proceeds received from customers. In this regard, we can ensure our sales to customers in the distribution network are genuine.

CHAIN PHARMACY OPERATIONS

All our chain pharmacies in Zhongshan are self-operated and are GSP certified. As advised by our PRC Legal Advisors, as at the Latest Practicable Date, we had obtained all necessary licences, permits and certificates in accordance with relevant PRC laws and regulations for our chain pharmacies operations. For more details, please refer to the paragraph headed "Business — Legal and compliance — Licences and permits" in this [REDACTED].

According to the Ipsos Report, we were the largest self-operated pharmacy chain in Zhongshan in terms of the number of pharmacies and revenue for three consecutive years from 2012 to 2014. As at the Latest Practicable Date, we had 201 pharmacies located in all districts of Zhongshan under our "Zeus (中智)" brand.

The following table sets forth the changes in the number of our self-operated pharmacies during the Track Record Period and up to the Latest Practicable Date:

	2012	2013	2014	Latest Practicable Date
At commencement of the year/period	150	198	195	198
Addition of new pharmacies	49	1	9	3
Closure of existing pharmacies *(Note)*	(1)	(4)	(6)	—
Net increase/(decrease) in pharmacies	48	(3)	3	3
At end of the year/period	198	195	198	201

Note: Closure of the relevant pharmacies was due to (i) expiration of the relevant lease; (ii) the relocation of the relevant pharmacies; or (iii) unsatisfactory performance of the relevant pharmacies.

Locations and sizes of our chain pharmacies

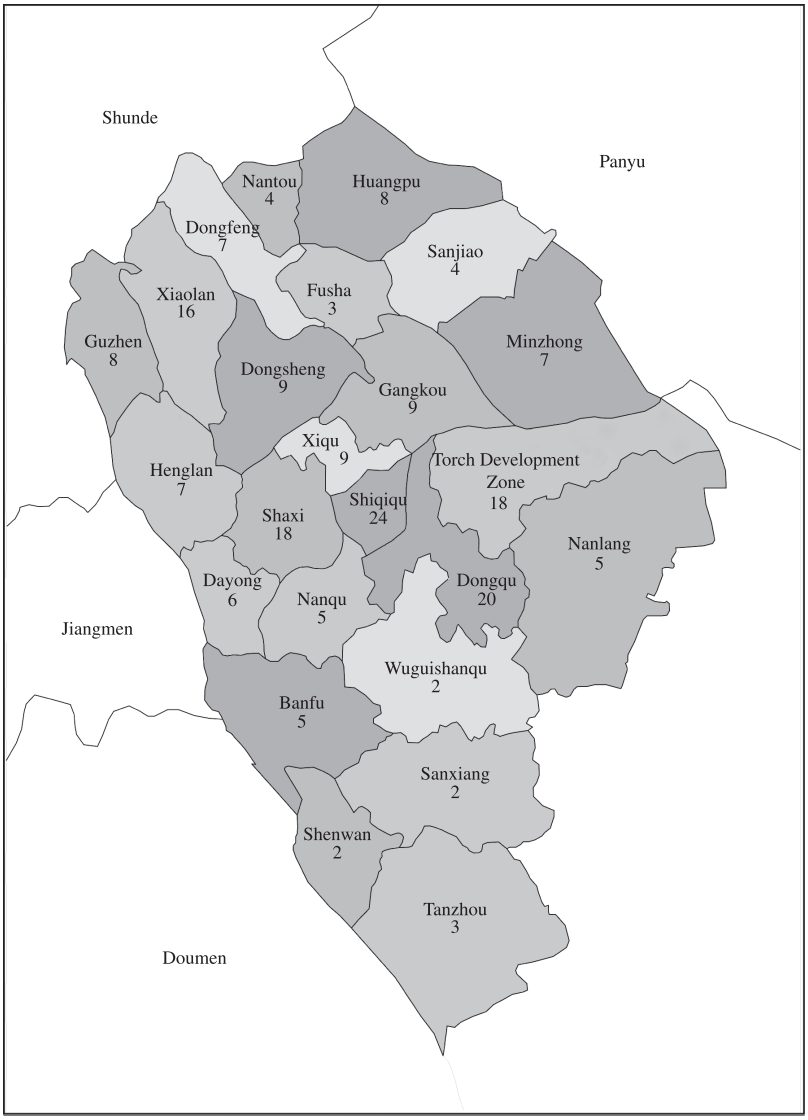
We consider that identifying a suitable location for operation of our chain pharmacies is crucial to the success of our chain pharmacies. Most of our existing pharmacies are located in convenient areas in Zhongshan. The factors that we take into account in making decisions on the location and the size of a pharmacy include consumer traffic, accessibility, spending patterns of the local population, strategic geographic coverage of our pharmacies and the presence of other pharmacies and their product mix so as to avoid direct competition. During the Track Record Period and as at the Latest Practicable Date, the gross floor area of our pharmacies ranged from approximately 40 to 600 sq.m.

Set out below is the size profile of our chain pharmacies:

Gross floor area (approximate)	Number of pharmacies as at the Latest Practicable Date
Under 100 sq.m.	104
Over or equal to 100 and under 200 sq.m.	87
Over or equal to 200 sq.m. *(Note)*	10

Note: We have a flagship pharmacy with gross floor area of approximately 600 sq.m.

The number of pharmacies in each district of Zhongshan as at Latest Practicable Date is set forth in the map below:



Note: Figures in the map represent the number of our self-operated pharmacies in each district of Zhongshan.

Leases of our chain pharmacies

Except for one pharmacy which operates in our owned property, all of our chain pharmacies are located and operate in leased premises. Our leases have terms of approximately two to five years. The following table sets forth terms of the leases of our pharmacies:

Number of leased pharmacy	Dates of expiry
28	On or before 31 December 2015
52	On or before 31 December 2016
121	After 31 December 2016

If we cannot procure renewal of any of the above leases upon its expiry, we may have to relocate the relevant chain pharmacies to other premises. Notwithstanding that, our Directors believe that comparable premises at comparable locations can be identified without difficulty and the relocation costs will not have material adverse impacts on our operation and financial performance.

The branding and unique layout of our chain pharmacies

All our chain pharmacies are operated under the "Zeus (中智)" brand and are subject to a uniform and unique layout by adopting uniform style in their exterior and interior designs and decorations, such as colour scheme and design specifications. These have successfully promoted our corporate image and distinguished our chain pharmacies amongst other chain pharmacies and individual pharmacies in the market.

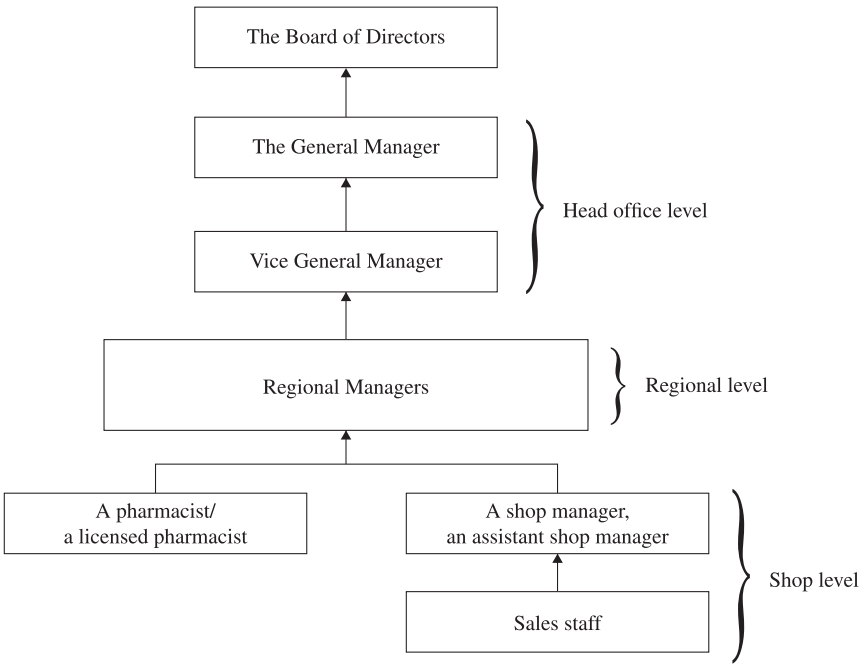
Accreditations from government authorities

According to Zhongshan Social Medical Insurance Medical Expenses Settlement Methods* (中山市社會醫療保險醫療費用結算辦法), effective from 1 July 2014, customers who are registered with the relevant medical insurance scheme can pay for the pharmaceutical products listed in Zhongshan Outpatient Essential Medical Insurance Drugs Catalogue* (中山市門診基本醫療保險藥品目錄), healthcare products and medical devices in the pharmacies accredited by the PRC national medical insurance programme through their medical insurance cards. Following the revision of Zhongshan Outpatient Essential Medical Insurance Drugs Catalogue on 1 July 2014, the number of pharmaceutical products eligible thereunder has increased to 1,029 types.

As at the Latest Practicable Date, among our 201 pharmacies, 86 were accredited pharmacies under the relevant PRC national medical insurance programme and our Directors believe that the sales in these pharmacies will increase due to the convenient payment method and the inclusion of additional pharmaceutical products in the National Medical Insurance Drugs Catalogue.

Management and operation of our chain pharmacies

Our chain pharmacies operations are supported by various in-house departments, which include sales and marketing, accounting and administration, procurement, warehousing, pricing, logistics and quality control of products. All these departments are under the management of Ms. Jiang Mei Fang, the general manager of our chain pharmacies operations, who reports to our Board. The hierarchy in respect of the management of our chain pharmacies is as follows:

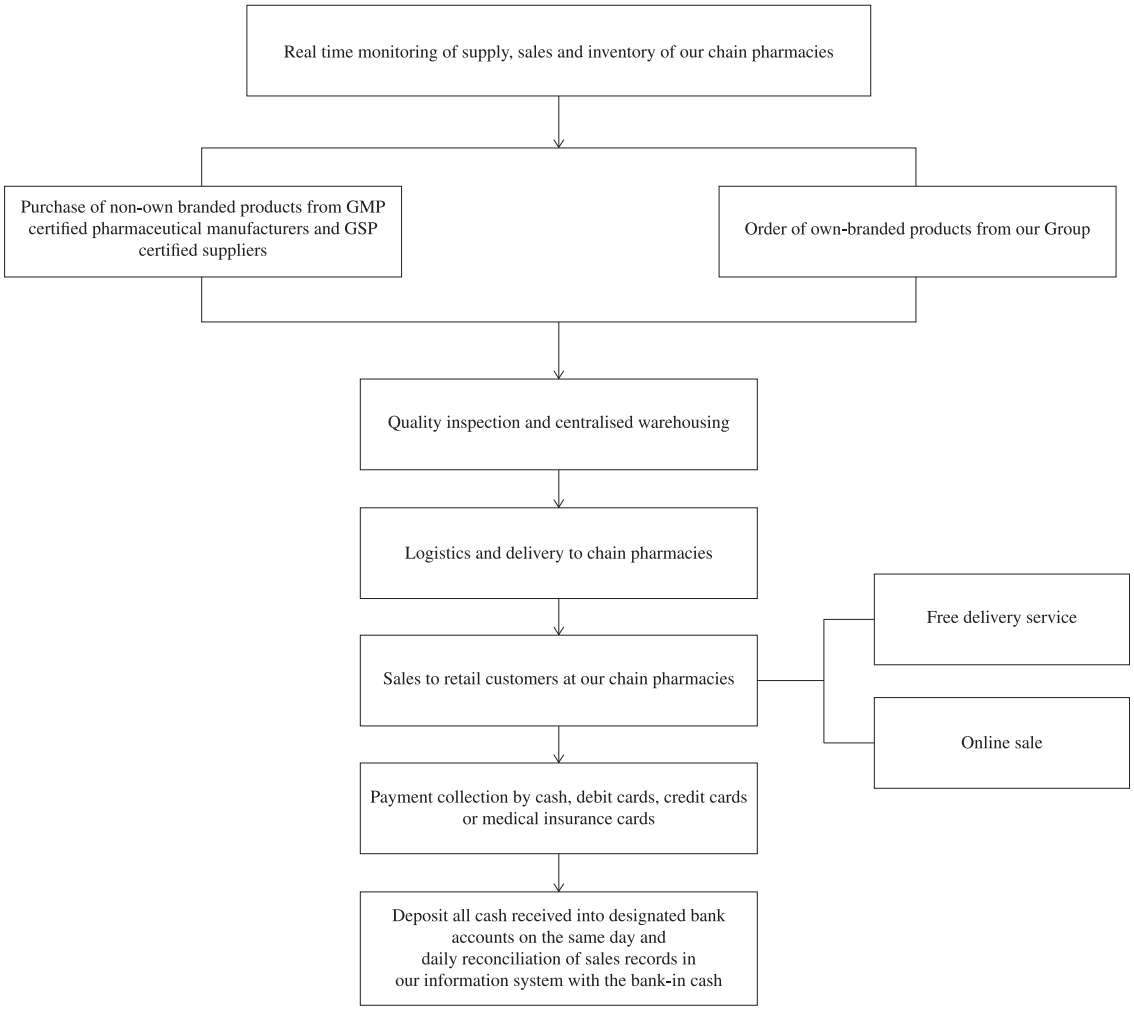


For the effective management of our chain pharmacies, we have divided our chain pharmacies into ten regions. In each region, we have appointed a regional manager responsible for the management and operation of a region consisting of 17 to 26 chain pharmacies. Each shop manager will in turn report to the corresponding regional manager.

As at the Latest Practicable Date, our Group had a total of 1,235 staff members employed for the operation of our chain pharmacies. Each of our chain pharmacies is staffed with a shop manager, a few sales persons and a licensed pharmacist or pharmacist. Depending on the size of a pharmacy, there is also an assistant shop manager in some chain pharmacies and in general, the number of sales staff ranges from three to seven. According to the new GSP requirements, by the end of 2015, all pharmacies shall have an in-house licensed pharmacist stationed who is responsible for checking prescriptions and directing drug uses. For the compliance with this regulatory requirement and for our expansion purpose, we provide in-house trainings to our existing pharmacists who have already gained the relevant experiences in our chain pharmacies to prepare for the examination required for the qualification of licenced pharmacists. As at the Latest Practicable Date, our Group had 225 licensed pharmacists and 229 pharmacists. If necessary, we may also recruit additional licenced pharmacists from the market.

Our Directors confirm that we will have a licensed pharmacist in each of our chain pharmacies in order to comply with the new GSP requirements mentioned above. We regularly conduct training programmes related to health products, pharmaceutical products, nutritional information and sales skills for our sales staff and pharmacists in order to ensure that they have sufficient knowledge and understanding on our products available for sale in our chain pharmacies and be able to give correct information to our customers.

The following diagram illustrates the business model and operating process of our chain pharmacies:



To ensure smooth operation of our chain pharmacies, we have installed an information system in all our chain pharmacies, which provides real-time operational data such as our inventory levels and product sales information. The information system of each chain pharmacy is connected to our head office, which allows our management to have a quick analysis on the sales performance and monitoring of the inventory level of each pharmacy as well as the sales trends of different types of products.

Procurement of products for sale in the chain pharmacies

Our sales and marketing department will work with our accounting department for the preparation of a sales forecast for each month in the succeeding year, by making reference to, *inter alia*, the actual sales performance of the current year and anticipated changes in market trends. Based on the sales forecast, our procurement department will work out a procurement schedule for the sourcing of various types of products for the sale in our chain pharmacies. Our information system enables us to have real-time information on the inventory level of each pharmacy. Based on this, our procurement department will place purchase orders to suppliers on a timely basis to ensure that each chain pharmacy will have sufficient stock to meet customer demands from time to time. Our management will set a minimum stock level for each chain pharmacy based on its historical sales performance and taking into consideration our sales forecast and market trends. When the minimum stock level is reached, a stock replenishment order will be automatically generated by our information system. This stock replenishment order has to be reviewed and approved by the shop manager of individual pharmacy before submission to our head office. Our shop manager may adjust the quantities to be replenished according to the latest market demands on our products, when our store manager deems fit. Our procurement department can arrange for the delivery of products to our chain pharmacies within two days of receiving the stock replenishment orders.

Quality Inspection and warehousing

On the day the products are delivered to us by our suppliers, they are temporarily placed in the central inspection area where they will be checked by our quality inspection staff. Our quality inspection staff count and confirm the receipt of the correct quantity of the products and routinely perform quality control checks on random samples for defects and damages. Our staff strictly adhere to the GSP guidelines and inspect the physical appearance, packaging, labeling and the instruction manual of the products. Our staff will also check the respective expiry dates of the pharmaceutical products and reject any products which will expire in the next 12 months. Unless the products are required to be delivered to the pharmacies shortly after their arrival, they will be stored in our centralised warehouse.

Inventory management

We manage our inventory with a focus on controlling our inventory holding costs and maintaining the variety of products available for sale in our chain pharmacies. On a monthly basis, we perform analysis on the sales performance and inventory level of each chain pharmacy by using the operational data collected by our information system, which in turn optimises the stock level of

each chain pharmacy and minimises the stock aging problems. We perform stocktaking every month to verify the record of inventory level of our head office and each chain pharmacy. Any inventory discrepancies discovered during each stocktake will be followed up and reported to the general manager of our chain pharmacy segment and our finance department.

Free delivery services

We provide 24-hour free delivery services within the urban area of Zhongshan. Our delivery team sends the ordered pharmaceutical products to customers within a short period of time upon receipt of our customer orders. As at the Latest Practicable Date, to the best knowledge of our Directors, we are the only pharmacy which provides free delivery service in Zhongshan. Hence, this service has enhanced the reputation and popularity of our chain pharmacies in the local community of Zhongshan.

Methods of payment and cash management

We offer a variety of methods of payment including cash, debit cards, credit cards and medical insurance cards. Our information system records every transaction that occurs in our chain pharmacies. We have implemented a set of cash control procedures to manage the collection and handling of cash payments.

The cashier and shop manager in each pharmacy are responsible for counting cash received and ensuring the accuracy thereof. We generally require each pharmacy to deposit all cash received into our designated bank accounts on a daily basis and to conduct a daily reconciliation of sales records in the information system with the bank-in cash.

During the Track Record Period, we had not experienced any misappropriation of cash by our employees, customers or other relevant third parties that had a material adverse impact on our business and results of operations.

We also receive reimbursements from the social security bureau for the sales transactions settled by medical insurance cards.

Product return policy

We recognise revenue from the sale of products to our retail customers in our chain pharmacies when the products are sold. Generally, products sold to our retail customers are not refundable except for product quality reasons. Sales returns from our retail customers amounted to approximately RMB0.3 million, RMB0.5 million and RMB0.6 million for each of the three years ended 31 December 2014, respectively.

Retail Product Portfolio

Our goal is to provide a wide variety of high quality pharmaceutical and healthcare products in our chain pharmacies so that customers can choose products with similar functions or therapeutic purposes at different price ranges at convenient store locations, with pharmaceutical-related advisory services provided. We offer both own-branded products and non-own branded products procured from third party manufacturers and suppliers for sale in our chain pharmacies. The revenue of our chain pharmacies was mainly generated from the sale of non-own branded products during the Track Record Period. We sold over 4,000 non-own branded products including Chinese patent medicines, Western medicines, medical devices and healthcare products (such as vitamins, mineral supplements and protein powder) sourced from independent GMP certified pharmaceutical manufacturers or GSP certified suppliers (including distributors and pharmaceutical wholesalers). During the Track Record Period, the sales of both own-branded products and non-own branded products in our chain pharmacies were not affected by seasonality.

The following table sets forth the revenues generated from the sale of our own-branded and non-own-branded products and their respective percentages to the total revenue generated by our chain pharmacies for the periods indicated:

	For the year ended 31 December					
	2012		2013		2014	
	Revenue		Revenue		Revenue	
	RMB'000	%	RMB'000	%	RMB'000	%
Own-branded products	54,307	22.9	66,090	24.0	71,269	23.7
Non-own branded products	183,505	77.1	209,453	76.0	229,456	76.3
Total	237,812	100.0	275,543	100.0	300,725	100.0

The table below sets forth the details of the main categories of our products (both own-branded products and non-own branded products) and the number of product types and certain major products in each category that are offered in our chain pharmacies:

Product category	Number of products types *(Note)*	Certain major products within each category
Chinese patent medicines	Own-branded: 33	Cough and Cold: Cough Tablet* (克咳片), Yinhuang Granules* (銀黃顆粒), Compound Indigowoad Root Granules* (複方板藍根顆粒)
	Non-own branded: 1,111	Digestive system: Compound Vitamin U Tablets* (複方維生素U片), Wanglaoji Po Chai Pills* (王老吉保濟丸)
		Children: Seven Star Tea* (小兒七星茶), Comfort Children Granules* (保兒安顆粒)
		Bone and Joint: Caoqinghua Pain Relief Capsules* (薏辛除濕止痛膠囊(曹清華)), Axe Brand Red Flower Oil* (斧標正紅花油)
Western medicines	All non-own branded: 1,232	Anti-biotics: Valaciclovir Hydrochloride Tablets* (鹽酸伐昔洛韋片) (麗珠威), Itraconazole Capsules* (伊曲康唑膠囊)
		Cardiovascular system: Compound Red Sage Root Dripping Pills* (複方丹參滴丸), Simvastatin Tablets* (舒降之)
		Respiratory system: Montelukast Sodium Chewable Tablets* (孟魯司特鈉咀嚼片(順爾寧)), Theophylline Sustained-release Tablets* 茶鹼緩釋片(舒弗美)
Medical devices	All non-own branded: 497	Defervescence patch* (退熱貼), electronic blood pressure meter* (電子血壓計)
Healthcare products	All non-own branded: 209	Donkey-hide gelatin* (阿膠), vitamin tablets, protein powder, fish oil softgel capsules
Decoction pieces (including traditional decoction pieces and modern decoction pieces)	Own-branded: 158	Frutukkarua currgisa* (川貝), dendrobium* (石斛), Chinese wolfberries* (枸杞王), dendrobium modern decoction pieces* (石斛破壁飲片), sanqi modern decoction pieces* (三七破壁飲片), red sage root modern decoction pieces* (丹參破壁飲片)
	Non-own branded: 956	Shaxi herbal tea* (沙溪凉茶), red ginseng* (紅參), caterpillar fungus* (冬蟲夏草)
Others	All non-own branded: 282	Personal care products: Toothpaste, deodorant, shampoo

Note: Figures provided are approximate figures.

The revenue generated from the sales of our top ten products in our chain pharmacies amounted to approximately RMB21.8 million, RMB22.5 million and RMB24.3 million for each of the three years ended 31 December 2014, accounting for approximately 9.2%, 8.2% and 8.1% of our total revenue generated from our chain pharmacies operations, respectively. We regularly review the sales trend of individual products and adjust the product mix if necessary.

Pricing of our products offered for sale in our chain pharmacies

In general, we price our products offered for sale in our chain pharmacies on a cost plus basis with reference to the prevailing market condition such as changing demands from customers, availability of comparable products in the market and prevailing competitions with other pharmacies. For some non-own branded products being sold in our chain pharmacies, we set the retail prices with reference to the recommended prices, if any, provided by the relevant suppliers.

Government Policies affecting the pricing of pharmaceutical products

(i) *National Medical Insurance Drugs Catalogue, Provincial Medical Insurance Drugs Catalogue and National List of Essential Drugs and the notice in the price of "low-price drugs" issued by the NDRC*

During the Track Record Period, some of the products sold in our chain pharmacies were included in the National Medical Insurance Drugs Catalogue, Provincial Medical Insurance Drugs Catalogue and/or National List of Essential Drugs and/or subject to other relevant policies. Hence, the retail prices of these products were subject to the government price controls in the form of fixed prices or retail price ceilings, which in turn affected our pricing for these products for sale in our chain pharmacies. Pursuant to the Drug Pricing Reform Notice, except for anesthetic and certain psychiatric drugs, the price controls on all pharmaceutical products were lifted with effect from 1 June 2015. As we do not sell any anesthetic or psychiatric drugs in our chain pharmacies, all pharmaceutical products being sold in our chain pharmacies are not subject to any government price control. Subject to the prevailing market conditions, such as demands, pricing and competition, we may consider (i) manufacturing and selling those of our own-branded Chinese patent medicines which were previously subject to the PRC government price control and had already been approved for production by the relevant government authorities and registered with the CFDA, but had not been manufactured and launched in the market due to the low profit margin; and/or (ii) selling in our chain pharmacies those pharmaceutical products which were previously subject to price controls and not sold by us in order to broaden our product portfolio.

As at the Latest Practicable Date, amongst our own-branded Chinese patent medicines, eight and 22 of which are respectively listed on Part A and Part B of the National Medical Insurance Drugs Catalogue whereby the participants of the National Medical Insurance Programme are entitled to reimbursement of the entire purchase amount for medicines listed on Part A or part of the purchase price for medicines listed on Part B. For details of the National Medical Insurance Programme, please refer to the paragraph headed "Regulation — Catalogue and Price Controls of Pharmaceutical Products — The National Medical Insurance Programme" in this [REDACTED].

For each of the three years ended 31 December 2014, the respective revenue generated from the sale of our own-branded Chinese patent medicines listed on Part A and Part B of the National Medical Insurance Drugs Catalogue was approximately RMB82.7 million and RMB16.6 million; RMB83.5 million and RMB21.8 million; and RMB83.0 million and RMB19.8 million, respectively. Of the total revenue from Part A and Part B medicines, approximately RMB5.2 million, RMB5.3 million and RMB6.1 million were derived from sales in our self-operated chain pharmacies.

(ii) *The policy of preferential price pharmacies implemented by the Price Control Administration of Guangdong Province (*廣東省物價局*)*

The selection of preferential price drugs is catered for the demands of the general public for certain pharmaceutical products, such as drugs for treatment of common diseases and chronic diseases. The preferential price drugs therefore have to be offered at some of our chain pharmacies which are designated as preferential price pharmacies* (藥品平價商店) at a price which is about 5% to 10% lower than the selling price in nearby pharmacies. As at the Latest Practicable Date, 32 of our chain pharmacies out of a total of 44 designated pharmacies in Zhongshan were preferential price pharmacies. For each of the three years ended 31 December 2014, we recorded revenue from our preferential price chain pharmacies of approximately RMB86.3 million, RMB92.6 million and RMB98.4 million, representing for approximately 36.3%, 33.6% and 32.7% of our total revenue derived from our chain pharmacies operations, respectively. Gross profit for these preferential price chain pharmacies were approximately RMB36.4 million, RMB43.3 million and RMB47.1 million for the corresponding periods.

We receive government subsidies every year from the Ministry of Finance of Zhongshan (中山市財政局) in this regard, which amounted to approximately RMB0.81 million, RMB0.96 million and RMB0.61 million for each of the three years ended 31 December 2014, respectively. The negative impact on our revenue due to the difference in prices for preferential price drugs for the respective years amounted to approximately RMB2.3 million, RMB2.1 million and RMB1.9 million, respectively. Though the amounts of subsidies could not make up the difference in prices for preferential price drugs, our Directors believe that being accredited as preferential price pharmacies would help promote customers' awareness of our chain pharmacies and attract more customers to our chain pharmacies for purchase of preferential price drugs and other products.

Price Ranges

The table below sets forth the price ranges of major categories of our products sold in our chain pharmacies as at the Latest Practicable Date.

Product category	Price ranges *(Note)*
Chinese patent medicines	RMB1.5 to RMB1,986.0
Western medicines	RMB0.8 to RMB1,336.0
Decoction pieces	RMB1.1 to RMB22,980.0
Healthcare products	RMB1.5 to RMB1,488.0

Note: The price ranges are based on the smallest individual package as one unit and are inclusive of value added tax.

Suppliers of our chain pharmacies

We sourced merchandises from over 200 independent pharmaceutical manufacturers, wholesalers and distributors for sale in our chain pharmacies during the Track Record Period.

Selection of suppliers

Our Group only selects suppliers which are either GMP certified pharmaceutical manufacturers or GSP certified wholesalers and distributors taking into account their product quality, price competitiveness and past track records. We maintain a list of suppliers which are approved by our management. Our procurement department is required to make purchases only from those suppliers on our approved list. All our suppliers are in the PRC, including reputable pharmaceutical corporations such as Shandong Dong-E E-jiao Co., Ltd* (山東東阿阿膠股份有限公司) and Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司). Our procurement department reviews the approved list of suppliers on a regular basis.

The general manager and vice general manager of our chain pharmacy operations are responsible for the approval of pharmaceutical products to be put on sale in our chain pharmacies. New products are subject to a 3-month trial period. We will continue to sell these new products if they meet our criteria such as having a satisfactory market response and meeting an expected sales target.

As we have a wide network of suppliers, we are not reliant on any single supplier. We believe that alternative suppliers or alternative products are readily available for all of the products we source and, thus, the loss of any one supplier or one product for sale would not have any material effect on our chain pharmacy operations. During the Track Record Period, we did not experience any significant difficulties in maintaining reliable sources of supply, and we expect that we would be able to maintain adequate sources of supplies of pharmaceutical and other products to be sold in our chain pharmacies.

We generally enter into framework supply agreements with our major suppliers. These framework supply agreements are provided by the suppliers and therefore contain different terms and conditions as required by different suppliers. The following table sets forth the general terms contained in most framework supply agreements:

Principal terms	Summary
Term	One year and is renewable subject to negotiation
Types of products specified	Yes
Payment terms	Not exceeding 60 days upon delivery
Minimum purchase amount	• Yes, but applicable to some framework supply agreements only • No penalty clause for non-fulfillment of the minimum purchase amount
Recommended Price	Yes, but applicable to some framework supply agreements only
Delivery of products	Suppliers are generally responsible for delivering the products to our designated warehouse in Zhongshan
Sales return	Yes, but only due to quality reasons
Termination	The agreement will be terminated upon happening of certain events such as overdue payment, our failure to obtain requisite licences and permits, our non-compliance of the agreed sale policy (if any) and selling of counterfeit products
Exclusive distribution right	Yes, but applicable to some framework supply agreements only

We require the suppliers of our chain pharmacies (including manufacturers and distributors of the non-own branded products) to enter into quality assurance agreements with us before we purchase from them. Pursuant to the quality assurance agreement, the supplier agrees to, among other things, be responsible for all liabilities due to product defects including, but not limited to, indemnifying us and our customers for all losses, damages and personal injuries resulted from the quality of their products. In the case where the pharmaceutical products supplied to us are imported from overseas, the relevant supplier shall also provide a quality report issued by the relevant authority of the pharmaceutical products' place of origin or the import permit approving the importation of pharmaceutical products to the PRC. There is no restriction that our Group can claim against the suppliers for all losses and damages arising from any defect of the non-own branded products supplied to us.

Marketing and Promotion of our chain pharmacies

Leveraging on over ten years of experience in chain pharmacies operations in Zhongshan, we have acquired an in-depth understanding on the needs and preferences of the customers in Zhongshan. We have also established proven marketing strategies to promote our chain pharmacies

including advertising in newspapers and the internet, billboards and banners. We have also launched a wide range of marketing activities including gift packs and online sales to promote our chain pharmacies and the "Zeus (中智)" brand.

Online Sales

Our online sales platform 中智藥房網 *www.zzdyf.cn* was launched in August 2014 for the sale of our own-branded products. We obtained the internet medicine dealership certificate (互聯網藥品交易服務資格證書) and internet medicine information service certificate (互聯網藥品信息服務資格證書) on 13 January 2014, pursuant to which we are allowed to sell pharmaceutical products, healthcare products and health supplements through internet. Our Directors believe that our online platform can further promote our "Zeus (中智)" brand and expand the retail sales of our own-branded products. For each of the three years ended 31 December 2014, our revenue from online sales amounted to approximately RMB0.1 million, RMB0.4 million and RMB0.4 million, respectively. Our online sales revenue prior to the launch of our online sales platform in August 2014 was derived from independent PRC online trading platforms.

Gift packs

We offer a range of gift packs of assorted decoction pieces for different intended functions such as for health maintenance and beauty and energising purposes targeting for the high-ended market. As at the Latest Practicable Date, we had six types of gift packs, such as the Zeus Wellbeing Formula* (中智養生方) and the Zeus Blood Nourishment Formula* (中智補血方).

We believe that through these marketing and promotional activities, we can increase public awareness of our "Zeus (中智)" brand and reputation, which in turn has a positive effect on our business operation and profitability.

RECENT BUSINESS DEVELOPMENT

As at the Latest Practicable Date, we had obtained the business licence for the production and distribution of food products and relevant food production licences for the manufacturing of three kinds of food products, namely the granulated siraitia grosvenorii (羅漢果), granulated rose petals (玫瑰) and granulated Chinese hawthorn (山楂). These products are processed from traditional decoction pieces manufactured by us and granulated by using our patented techniques which are currently used for our production of modern decoction pieces and are readily used for oral consumption.

Our food products will be sold in our self-operated chain pharmacies and supermarkets in the PRC. As at the Latest Practicable Date, all of our self-operated chain pharmacies had obtained the relevant food circulation permit (食品流通許可). We also intend to tap into the food product market through the sale of our food products to supermarkets with a focus on the Guangdong province at the inception stage. We had commenced to manufacture small quantities of food products, which had been launched in our self-operated chain pharmacies in June 2015 to test the

market response. Based on the market response, we will formulate our sales and marketing strategy and gradually roll out our food products. Apart from the regulatory requirements as set out in the paragraph headed "Regulation — Manufacturing and distribution of food products" in this [REDACTED], our Directors are not aware of any regulatory restrictions on our production and distribution of food products.

OUR GROUP'S CUSTOMERS

Our Group's customers include distributors, and independent chain pharmacies and customers of our chain pharmacies in Zhongshan.

During the Track Record Period, our top five customers were Independent Third Parties in our pharmaceutical manufacturing segment. For each of the three years ended 31 December 2014, our sales to our five top customers accounted for approximately 8.5%, 8.7% and 13.7% of our total revenue, respectively. In the corresponding periods, our sales to our largest customer accounted for approximately 3.1%, 2.7% and 4.6% of our total revenue, respectively. None of our Directors, their respective associates, and existing Shareholders hold more than 5% of our issued share capital or have any interest in any of our five largest customers during the Track Record Period.

The tables below set out the basic information of our top five customers during the Track Record Period:

For the year ended 31 December 2012:

	Major products sold to the customer	Business relationship since	Business nature of the customer	% to total revenue of our Group (approximate)
Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司)	Chinese patent medicines	2003	Distribution of pharmaceutical products	3.1
Customer A	Chinese patent medicines	2007	Distribution of pharmaceutical products	1.5
Customer B	Chinese patent medicines	2004	Distribution of pharmaceutical products	1.4
Customer C	Chinese patent medicines	2003	Distribution of pharmaceutical products	1.3
Customer D	Chinese patent medicines	2011	Distribution of pharmaceutical products	1.2

For the year ended 31 December 2013:

	Major products sold to the customer	Business relationship since	Business nature of the customer	% to total revenue of our Group (approximate)
Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司)	Chinese patent medicines	2003	Distribution of pharmaceutical products	2.7
Customer B	Chinese patent medicines	2004	Distribution of pharmaceutical products	1.9
Customer C	Chinese patent medicines	2003	Distribution of pharmaceutical products	1.7
Guangdong Focus Pharmaceutical Co., Ltd.* (廣東福卡斯藥業有限公司)	Modern decoction pieces	2013	Distribution of pharmaceutical products	1.6
Zhaoqing Bangjian Pharmaceutical Co., Ltd.* (肇慶邦健醫藥有限公司)	Chinese patent medicines and modern decoction pieces	2004	Distribution of pharmaceutical products	0.8

For the year ended 31 December 2014:

	Major products sold to the customer	Business relationship since	Business nature of the customer	% to total revenue of our Group (approximate)
Yunnan Hongxiang Yixintang Pharmaceutical Co., Ltd.* (雲南鴻翔一心堂藥業(集團)股份有限公司)	Modern decoction pieces	2014	Operation of chain pharmacies	4.6
Customer B	Chinese patent medicines	2004	Distribution of pharmaceutical products	2.8
Guangdong Dongguan Guoyao Group Co., Ltd.* (廣東省東莞國藥集團有限公司)	Chinese patent medicines	2005	Distribution of pharmaceutical products	2.8
Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司	Chinese patent medicines	2003	Distribution of pharmaceutical products	2.2
Customer C	Chinese patent medicines	2003	Distribution of pharmaceutical products	1.3

During the Track Record Period, we did not have any material disputes with our customers.

OUR GROUP'S SUPPLIERS

We source Chinese herbs, packaging materials and ancillary materials from our suppliers for the manufacturing of our pharmaceutical products as well as non-own branded products for sale in our chain pharmacies. We maintain a list of approved suppliers and conduct ongoing reviews on these suppliers and remove those who cannot satisfy our quality or other requirements. Details of

evaluation procedures on our suppliers are set out in the paragraph headed "Business — Quality control" in this [REDACTED]. We generally have alternative sources of supply for all of our products thus the loss of any single supplier would not have a material impact on our operations.

Our suppliers generally grant a credit period of not exceeding 60 days to us and we are allowed to settle our purchase amounts in cash or by way of bank acceptance notes.

For each of the three years ended 31 December 2014, total purchases from our top five suppliers amounted to approximately RMB65.2 million, RMB89.3 million and RMB88.7 million, respectively, representing approximately 30%, 36.5% and 40% of our total costs of purchase for the corresponding periods. For each of the three years ended 31 December 2014, our purchases from our largest supplier, accounted for approximately 9.5%, 10.3% and 12.6% of our total costs of purchase, respectively. All our suppliers are domestic suppliers except that we have imported small quantity of American ginseng in 2014 from Canada in the sum of approximately RMB4.9 million.

None of our Directors, their respective associates, and existing Shareholders hold more than 5% of our issued share capital or have any interest in any of our five largest suppliers during the Track Record Period.

The following tables set forth certain information about our top five suppliers during the Track Record Period:

For the year ended 31 December 2012:

	Major products procured from the supplier	**Business relationship since**	**Business nature of the supplier**	**% to total costs of purchase of our Group (approximate)**
Customer B *(Note)*	Pharmaceutical products	2004	Distribution of pharmaceutical products	9.5
Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司) *(Note)*	Pharmaceutical products	2003	Distribution of pharmaceutical products	6.7
Zhongshan Lianfeng Sugar Refinery Co., Ltd.* (中山市聯豐煉糖有限公司)	Sucrose	2010	Distribution of sugar and sucrose	4.7
Supplier A	Chinese herbs	2010	Distribution of Chinese herbs	4.6
Guangdong Dongguan Guoyao Group Co., Ltd.* (廣東省東莞國藥集團有限公司)	Pharmaceutical products	2005	Distribution of pharmaceutical products	4.5

Note: The suppliers were also two of our top five customers for the year.

For the year ended 31 December 2013:

	Major products procured from the supplier	Business relationship since	Business nature of the supplier	% to total costs of purchase of our Group (approximate)
Customer B *(Note)*	Pharmaceutical products	2004	Distribution of pharmaceutical products	10.3
Supplier A	Chinese herbs	2010	Distribution of Chinese herbs	8.9
Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司) *(Note)*	Pharmaceutical products	2003	Distribution of pharmaceutical products	6.9
Customer C *(Note)*	Pharmaceutical products	2003	Distribution of pharmaceutical products	6.8
Jian Jiju Ginseng Co., Ltd." (集安市吉聚參業有限公司)	Chinese herbs	2013	Operation of Chinese herbs plantation bases	3.6

Note: The suppliers were also three of our top five customers for the year.

For the year ended 31 December 2014:

	Major products procured from the supplier	Business relationship since	Business nature of the supplier	% to total costs of purchase of our Group (approximate)
Customer B *(Note)*	Pharmaceutical products	2004	Distribution of pharmaceutical products	12.6
Customer C *(Note)*	Pharmaceutical products	2003	Distribution of pharmaceutical products	10.7
Jointown Pharmaceutical Group Co., Ltd.* (九州通醫藥集團股份有限公司) *(Note)*	Pharmaceutical products	2003	Distribution of pharmaceutical products	8.9
Supplier A	Chinese herbs	2010	Distribution of Chinese herbs	4.4
Shandong Dong-E E-jiao Co., Ltd* (山東東阿阿膠股份有限公司)	Healthcare products	2002	Manufacturing and trading of healthcare products	3.4

Note: The suppliers were also three of our top five customers for the year.

Overlap between customers and suppliers

During the Track Record Period, two, three and three of our top five customers were also among our top five suppliers for the year ended 31 December 2014. Our sales to these parties were approximately RMB18.7 million, RMB30.0 million and RMB37.4 million and our purchases from them were approximately RMB35.3 million, RMB58.6 million and RMB71.5 million for each of the three years ended 31 December 2014, respectively. These parties contributed approximately 4.5%, 6.3% and 6.3% respectively to our total revenue for each of the three years ended 31 December 2014. They are long-established and sizeable pharmaceutical products distributors in the PRC with over ten years of establishment up to the Latest Practicable Date. These suppliers are GSP certified distributors of pharmaceutical products. They purchase our own-branded products for further

distribution through their distribution network and we also purchase products from them including decoction pieces for our manufacturing as well as pharmaceutical products for sale in our chain pharmacies.

Return of products to suppliers

According to the terms of various agreements with the suppliers, our suppliers allow us to return any raw materials we purchased for manufacturing our own-branded products which are contaminated or damaged, or fail to meet our specified quality standards. As for non-own branded products to be put on sale in our chain pharmacies, we cannot return the products to the suppliers save for those due to quality reasons or the expiration of their effective dates after mutual consultation or inspection by the independent third party professional inspection agency. During the Track Record Period, we did not experience any material return of supplies due to quality problems or any shortage or delay in the delivery of raw materials that would have a material adverse effect on our operations or performance.

QUALITY CONTROL

We believe that the quality of our products is crucial to our continued success. We place strong emphasis on achieving a consistently high quality for the products to be sold under both our pharmaceutical manufacturing and chain pharmacy operations. Our quality control department is responsible for formulating our Group's quality control policy which sets out guidelines in accordance with the respective requirements of GMP and GSP, covering various key steps from procurement, production, storage to sales and distribution of pharmaceutical products. Our quality control department is also responsible for ensuring that we are in compliance with all applicable regulations, standards and internal policies at all times. Our senior management team is actively involved in setting quality policies and managing internal and external quality performance. As at the Latest Practicable Date, our quality control department consisted of 73 employees.

As a result of our stringent quality control procedures, we had not experienced any claims, litigations and arbitrations or material adverse findings in inspection by government authorities with respect to the quality of our own-branded products and non-own branded products during the Track Record Period.

We generally do not allow product returns in both business segments, except for quality reasons. Our suppliers in both business segments generally provide quality assurance and shall bear all liabilities if we become aware of any quality issues. During the Track Record Period, we had not experienced any product recall on our own-branded products. Our Group's sales return was all related to our chain pharmacies operation and amounted to approximately RMB0.3 million, RMB0.5 million and RMB0.6 million, representing approximately 0.1%, 0.1% and 0.1% of our total revenue for each of the three years ended 31 December 2014, respectively. For non-own branded products, we returned the defective products to our suppliers for further handling.

Pharmaceutical manufacturing

We implement stringent quality control measures throughout the production process to ensure the quality and safety of our pharmaceutical products. We have established a quality control system in accordance with the relevant PRC laws and regulations and both of our production plants are GMP certified. Our quality control measures cover every stage of our production process and all factors that would influence the quality of our pharmaceutical products. The following table sets forth the key requirements under the GMP standards in the PRC, how our operations comply with such standards and how we ensure that our pharmaceutical products are consistently manufactured in accordance with their respective registration requirements, and are suitable for intended use.

Requirements under GMP standards	Corresponding measures taken by our Group for compliance with the GMP standards
Organisation and key personnel:	
The manufacturer should establish a management structure and has an organisation chart. The quality control department should be independent from other departments to carry out responsibilities of quality assurance and quality control.	We have established a comprehensive organisational structure according to the GMP standards. Our quality control team consists of a quality assurance division and a quality control division, both of which are completely independent from the production team. It is responsible for the quality control matters as required by the GMP standards such as formulating internal quality control guidelines, selecting suppliers, monitoring the entire production process and conducting annual review.
The head of production management should, at a minimum, possess a college degree in pharmaceutical or relevant specialties, with at least three years of practical experience in pharmaceutical production and quality management, among which at least one year in production management, with necessary training relating to the products being manufactured.	The general managers of Zhongzhi Herb Pieces and Honeson Pharmaceutical possess the required academic background and experience. For details of their biographies, please refer to the paragraph headed "Directors and Senior Management — Senior management" in this [REDACTED].
Production plants and facilities:	
The location, design, lay-out, construction, adaption and maintenance of premises should suit the drug production requirements, and should minimise the risk of contamination, cross-contamination, mixups and errors, as well as permit effective cleaning, operation and maintenance	We separate production areas for different products and clean the production areas immediately after completion of each batch of production to avoid contamination, mix ups and error. All production staff are required to wear production uniform, working caps and shoes. Access to our production line is under strict control and each production staff member is assigned to designated post(s) of a production line.

Requirements under GMP standards	Corresponding measures taken by our Group for compliance with the GMP standards
Equipment:	
The design, selection, installation, adaption and maintenance of equipment should be suitable for its intended use, minimise the risk of contamination, cross-contamination, mixups or errors, and facilitate operation, cleaning, maintenance, as well as disinfection or sterilisation if necessary	We manage the entire life cycle of each piece of production equipment according to such requirements. We have established procedures for the use, cleaning, maintenance and repair of the equipment. The activities of each phase are documented, recorded and achieved.
Procurement of raw materials and packaging materials:	
Quality assessment should be performed for the determination and change of material suppliers, and procurement can only be carried out after the suppliers have been approved by quality control department.	Our quality control staff reviews the qualifications of our raw material suppliers both before and after engaging them. We require our suppliers to provide documents in respect of compliance including their business licences, manufacturing permits, import registration certificates, GMP or GSP certificates or other related documents. Our procurement department can only procure raw materials from suppliers on the approved list. All raw materials (in particular Chinese herbs) are tested for the level of pesticide residues, heavy metals and harmful elements contamination in accordance with the requirements laid down in the Chinese Pharmacopoeia or Drug Standards, whereby laboratory reports are issued regarding the raw materials. We also visit regularly the plantation bases that supply Chinese herbs to us for ensuring the quality of their Chinese herbs. For detail of our suppliers of Chinese herbs, please refer to the paragraph headed "Business — Pharmaceutical manufacturing — Raw materials and suppliers — Suppliers of Chinese herbs" in this [REDACTED].
Management of quality control laboratories:	
The personnel, facilities, and equipment in the quality control laboratories should be appropriate to the tasks imposed by the product nature and the scale of the manufacturing operations	We have one quality control laboratory in each of our two production plants. The head and other senior members of our quality control team possessed appropriate qualifications and experience in managing laboratories. Necessary reference books such as the Chinese Pharmacopoeia or Drug Standards, and primary reference substances are available in quality control laboratories.

Requirements under GMP standards	Corresponding measures taken by our Group for compliance with the GMP standards
The head of the quality management should, at a minimum, possess a college degree in pharmaceutical or relevant specialties, with at least five years of practical experience in pharmaceutical production and quality management, among which at least one year in quality management, with necessary training relating to the products being manufactured.	The head of our quality control department is a licensed pharmacist and obtained a degree in pharmacy and possesses relevant experience in pharmaceutical production and quality management.
Documents management:	
Each batch of pharmaceutical products shall have a corresponding batch production record that allows one to trace the product batch's production history.	Each batch of our products has a corresponding serial number, which contains details of the key information of each stage of production to ensure the traceability of its production process, such as date, product name, batch number, the operating staff, the quality assurance staff, production procedures and quality indicators of the intermediate products in various phases and quality indicators of the finished products.
Production Management:	
An enterprise shall establish operation procedures to differentiate different batches of pharmaceutical products and ensure that pharmaceutical products of the same batch have consistent quality and features.	Our quality control staff members are responsible for overseeing our quality control procedures in the course of production of our products. Intermediate products are sample tested after each stage of the production process to ensure their compliance with GMP requirements and our quality standards. Only those products which pass the quality testing processes can proceed to the next stage of production. Defective intermediate products are taken out from the production lines and then repossessed or destroyed based in the views of our production department. We perform quality checks on samples from each batch of finished products to ensure that the products can satisfy our required standards. Product approval certificate and quality assurance report are issued with each batch of completed products which pass the inspection and obtain approval from our quality control team. Our warehouses only release products that obtain both the product approval certificate and the quality assurance report. Finished products that fail to meet our quality standards will be destroyed.
Finished Products	
Finished products should be stored under conditions in accordance with the approved specifications of drug registration.	All finished products are stored separately in our warehouses according to the approved specifications of relevant registration of the products.

In addition to the strict compliance of the GMP standards in the production of our products as set out above, to ensure that the quality of the Chinese herbs can meet our requirements for production, we had, in collaboration with Central South University* (中南大學), built up and registered the copyright of the "Zeus Chinese Medicine Fingerprint Quality Control Database System Abbreviated Form: ZEUSys V1.0* 中智中藥指紋圖譜質量控制數據庫系統 簡稱: ZEUSys" V1.0 (the "**ZEUSys**"). ZEUSys is a data base containing the fingerprints, characteristics and components of different kinds of Chinese herbs. These information help us identify the regional species, source, collection period, processing method and toxicity (if any) of the Chinese herbs, thus ensuring that the quality and stability of different batches of Chinese herbs to be used for production can meet our quality standard. The copyright of this ZEUSys is jointly owned by both Central South University* (中南大學) and us. Pursuant to the collaboration agreement entered into between Central South University* (中南大學) and our Group, Central South University is not entitled to any profits arising from the use of this copyright.

Operation of chain pharmacies

Our operation of chain pharmacies follows the GSP requirements. Our quality control system provides quality standards and operating procedures for different aspects of our business, including product purchases, quality inspections before products are arranged to be stored in our warehouses and quality checks before products exit our warehouses. The following table sets forth the key requirements under the GSP standards in the PRC and how our operations comply with such standards.

Requirement under GSP standards	Corresponding measures taken by our Group for compliance with the GSP standard
Personnel and Training:	
The personnel of enterprise engaging in drug operation and quality control shall comply with the requirements of relevant laws and regulations and the GSP on qualification	We provide pre-job training and continuing on-the-job training relating to the responsibilities and scope of work to the personnel on each position. Our quality control staff regularly visit our pharmacies in order to monitor the service quality of individual chain pharmacy and ensure that their operations comply with the requirements of relevant laws and regulations and the GSP qualification. We will analyse the feedback received during these inspections when determining employee promotions or bonuses. Each of our chain pharmacies has at least one in-store licensed pharmacist or pharmacist.
Facilities and Equipment:	
Enterprises shall have operation sites and warehouses that suit the operation range and scale of the drugs	Our location, design, layout, construction, and maintenance of warehouse meet the requirements on drug storage and prevent contamination of drugs, cross-contamination of drugs, confusions and errors. We provide adequate equipment in our warehouse including equipment for automatic monitoring and recording of warehouse temperature and humidity, special storage place for nonconforming drugs and appropriate lighting devices and installations.

Requirement under GSP standards	Corresponding measures taken by our Group for compliance with the GSP standard
Procurement:	
The purchase activities of enterprises shall meet the following requirements: (i) determine the legal qualification of supplier; (ii) determine the validity of the drugs purchased; (iii) verify the legal qualification of the sales personnel of supplier; and (iv) sign quality assurance agreement with supplier	We require our suppliers to provide copies of all relevant licences and certificates including business licence, annual inspection certificate, GMP or GSP certificates and pharmaceutical production licence. We require evidential documents for drug manufacturing affixed with the original official seal of supplier. We verify the legal qualification of the sales personnel and sign quality assurance agreement with suppliers. We conduct spot quality inspections of each batch of products we receive. We promptly replace our suppliers if they fail to pass our quality inspections.
Sales:	
Enterprises are required to maintain proper sales records of pharmaceutical products, including but not limited to product specification, dosage form, batch number, expiry date, manufacturer, sales quantity, unit price, sales amount and date of sale.	We have an information system to properly maintain the sales record of pharmaceutical products.

RESEARCH AND DEVELOPMENT

Overview

We consider research and development to be fundamental and essential to our continued development and future growth. We conduct our product research and development primarily through our in-house research and development team. We also collaborate with external research partners such as research institutions and universities. For each of the three years ended 31 December 2014, our research and development expenses amounted to approximately RMB10.8 million, RMB14 million and RMB11.2 million respectively.

During the Track Record Period and up to the Latest Practicable Date, our research and development projects are primarily aimed at (i) enhancing the quality and effectiveness of our existing pharmaceutical products; (ii) developing and expanding our pool of new pharmaceutical products; (iii) improving our production effectiveness and efficiency; and (iv) cultivating our research and development personnel.

In-house research and development

As at the Latest Practicable Date, our research and development team had over 14 personnel, including one doctorate degree holder and four master's degree holders. Most of our research staff members are experienced pharmaceutical engineers or licenced pharmacists in the PRC or have an experience of over seven years in pharmaceutical industry. These personnel are responsible for

(i) making recommendations to our senior management with respect to research scope and direction after reviewing the prevailing needs of general consumers and the market trends; (ii) coordinating and managing product development and research projects for collaborations with external research partners; (iii) conducting researches primarily for upgrading existing products; and (iv) conducting researches on Chinese patent medicines and decoction pieces. Our in-house research and development enables us to develop new pharmaceutical products at a comparatively low cost. As at the Latest Practicable Date, we had 29 invention patents (發明專利), one utility model patent (實用新型專利) and 15 design patents (外觀設計專利) registered in the PRC, 12 patents registered in Hong Kong and Macau, and had 33, six and 20 patent applications pending registration in the PRC, Taiwan and Hong Kong, respectively.

Our pipeline products under research and development are mainly new types of Chinese patent medicines for various curative functions and modern decoction pieces to be made of different types of Chinese herbs for health maintenance. As at the Latest Practicable Date, in addition to the 62 types of modern decoction pieces that had met the standards pronounced by the GFDA, we had developed 18 types of modern decoction pieces which were awaiting the approval from the GFDA, including snow lotus herb modern decoction pieces* (天山雪蓮破壁飲片), giant knotweed root modern decoction pieces* (虎杖破壁飲片) and common motherwort fruit modern decoction pieces* (益母草破壁飲片). As to Chinese patent medicines, we were currently developing shuanghuang gout capsules* (雙黃痛風膠囊) which was undergoing phase IIa of clinical trial.

Collaboration with external research partners

To strengthen our research and development capabilities, apart from our in-house research and development team, we have set up a research base with Guangzhou University of Chinese Medicine (廣州中醫藥大學) (the "**University**") for a term of five years commencing from July 2014 whereby, we agree to provide funding to the research base for nurturing professionals in Chinese medicine for a total sum not less than RMB1 million and separate co-operation agreement will be signed on individual research projects. In consideration thereof, the University agrees to use its best efforts to provide us with research support and we would have the first right to request the research base to conduct research and development on the particular subject requested by us and the first right of entitlement to its research findings and results.

We also entered into a technical support agreement with Institute of Chinese Materia Medica China Academy of Chinese Medical Sciences (中國中醫科學院中藥研究所) (the "**Institute**") in June 2014 with retrospective effect from May 2014 to December 2014, pursuant to which the Institute agreed to provide technical support to our research projects, i.e. the deoxyribonucleic acid (DNA) code of ginseng and American ginseng modern decoction pieces. The consideration payable to the Institute was RMB100,000. During the term of the technical support agreement, the intellectual property right of the research result should belong to us but any new technology resulted from the research shall be jointly owned by our Group and the Institute if the technology was developed by the Institute.

We also collaborate with various external research partners including research institutions and universities for our research and development of new products, their functions and effectiveness and new production techniques. The types of collaboration arrangements vary from project-based technical services and ad hoc consultancy to longer-term cooperation. Our research partners provide the necessary equipment, know-how and personnel. Our role, in addition to our participation in the entire research and development process, also includes the provision of necessary funding for these joint research and development projects. In addition, all of our research partners are bound by confidentiality obligations, which prohibit them from divulging any information relating to the products under development to third parties.

Pursuant to the collaboration agreements with our research partners, we have the sole proprietary rights or joint proprietary rights over the know-how, techniques, findings and results of the research projects.

Owing to our achievements in research and development activities, Zhongzhi Herb Pieces and Honeson Pharmaceutical had been accredited the status as a High and New Technology Enterprise* (高新技術企業) since 2003 and 2008 respectively, which entitled us to a preferential income tax rate of 15%. The current status of Zhongzhi Herb Pieces and Honeson Pharmaceutical as High and New Technology Enterprise and their entitlement to the reduced EIT rate will expire in 2017.

In April 2014, we were granted an approval to build a State-level laboratory for the development of "modern decoction pieces techniques and its application" by the State Administration of Traditional Chinese Medicine of the PRC (國家中醫藥管理局). We started to set up this laboratory in mid-2014 and was put into use by the end of 2014. This laboratory has a floor area of approximately 3,000 sq.m.

LOGISTICS

We outsource the transportation of most of the products developed and manufactured by us to qualified logistics companies for delivery outside Zhongshan. The transportation of products inside Zhongshan is undertaken by our logistics team. We generally select our logistics providers based on prices, reputations, transportation efficiencies, transportation capabilities and track records. We also require our logistics providers to possess valid transportation permits and other relevant qualifications to conduct their business. These outsourcing arrangements allow us to reduce our capital investment and the logistics companies bear the risks associated with the delivery of our pharmaceutical products.

ENVIRONMENT AND SAFETY MATTERS

Our operations and facilities are subject to environmental laws and regulations stipulated by the national and local environmental protection bureaus in the PRC. We obtained the Pollutant Emission Permit for Honeson Pharmaceutical and Zhongzhi Herb Pieces, which is valid from October 2010 till October 2015 and from February 2013 till February 2018, respectively. The pollutants generated from our production process mainly include waste water and waste gas. We

installed various types of pollution control equipment in our facilities to reduce, treat and recycle the waste generated in our production process. We also improve our production techniques in order to reduce the pollutants we discharge to the environment.

Our Directors confirm that our production facilities comply with all relevant environmental and manufacturing standards required by the GMP standards. As at the Latest Practicable Date, we had not been subject to any material environmental compliant or administrative penalties with respect to environmental violations. Our PRC Legal Advisors are of the opinion that we complied with all applicable environmental laws and regulations in all material respects during the Track Record Period. Our production facilities in the PRC are subject to regular inspections by environmental regulatory authorities. If these facilities are found to be not in compliance with the applicable environmental standards, we may be subject to penalties, which may range from fines to suspension from production. As the PRC legal system continues to evolve, we may be required to undertake significant expenditures in order to comply with environmental laws and regulations that may be adopted or imposed in the future. For each of the three years ended 31 December 2014, our total environmental compliance costs were approximately RMB46,000, RMB46,000 and RMB53,000, respectively. As at the Latest Practicable Date, we are not aware of any pending litigation or significant financial obligations arising from our current or past environmental practices that are likely to have a material adverse effect on our business operations and financial position. However, we cannot predict the impact that unforeseeable environmental contingencies or any new or amended laws or regulations which may affect us or our use of production facilities. For further information on the environmental laws and regulations governing our operations, please refer to the paragraph headed "Regulation — Environmental protection" in this [REDACTED].

The PRC government imposes a number of regulatory requirements on pharmaceutical companies with regard to employees' health and safety. We regard occupational health and safety as one of our important social responsibilities and have implemented safety guidelines at our production facilities, to which all employees are required to strictly adhere. We also conduct regular work place safety trainings for our employees and have dedicated personnel who are well-versed with the regulatory requirements applicable to our operation to monitor different stages of the production process to ensure work place safety.

Fire accident occurred during the Track Record Period

On 6 March 2013, there was an explosion occurred in the production plant of Zhongzhan Zeus Pharmaceutical Manufacturing Limited ("**Zeus Pharmaceutical**"). The incident had destroyed some of the production equipments and inventories and resulted in minor injuries of three workers. At that time, Zeus Pharmaceutical was engaged in the production of Chinese patent medicines. Our Group's other production processes and order deliveries had not been affected by the fire accident.

The Administration of Work Safety of Zhongshan Municipality* (中山市安全生產監督管理局) (the "**Authority**") conducted an investigation into this incident and issued a report on 29 March 2013 (the "**Report**"). The Report stated that the explosion was caused by excessively high concentration of alcohol in the furnace for drying the ingredients during the trial production of new products. According to the relevant PRC laws and regulations for production safety, this incident was a general production safety accident i.e. casualty of less than three or serious injuries of less than ten or direct economic loss below RMB10 million. Zeus Pharmaceutical was required to enhance its trainings and education on production safety and implement production safety system in order to ensure the production activities were carried out safely. The estimated loss on production equipments and inventories was approximately RMB1.6 million, which was fully covered by insurance of which claims were fully received in 2013. Zeus Pharmaceutical was deregistered on 15 July 2014 as its operations were taken over by Honeson Pharmaceutical.

Our PRC Legal Advisors are of the opinion that, during the Track Record Period, we complied with all relevant national or local occupational health and safety laws and regulations. Our Directors confirm that there were no accidents that resulted in the death or serious injury of our employees during the Track Record Period. Though we have maintained insurance policy related to the safety of our employees working in our production plants, there is no assurance that our insurance policies will be adequate to cover all losses incurred in the event of an accident or other unexpected event in the future. In such event, if the coverage of our existing insurance policies is not adequate, our financial condition and results of operations may be materially adversely affected. Please refer to the paragraph headed "Risk Factors — Risks relating to our business — Our insurance coverage may not completely cover the risks related to our business and operations" in this [REDACTED] for the associated risks.

EMPLOYEES

We strive to retain and recruit employees who share our commitment as a successful pharmaceutical enterprise. We offer competitive remuneration packages to attract and retain talented and experienced employees. We also provide various types of on-the-job training for all staff in order to ensure that our employees are able to understand and adapt to our Group's policies in an efficient manner. We have adopted our appraisal system in terms of individual employee's attendance, performance and ability.

As at each of the three years ended 31 December 2014, we had 1,761, 1,883 and 2,097 full-time employees, respectively. Set forth below is the distribution of our employees by function as at the Latest Practicable Date:

Function	Number
Production	315
Research and Development	14
Quality Control	73
Sales and Marketing	
— pharmaceutical manufacturing	326
— operation of chain pharmacies	1,235
Procurement	15
Logistics	65
Finance and Accounting	31
Information Technology	5
Others *(Note)*	177
Total	2,256

Note: Others include general administration and human resources.

Remuneration

The employees of our Group are generally remunerated by way of a fixed salary or basic salary plus incentives such as sales commission based on sales targets and sales proceeds recovery for distribution business. We have devised an appraisal system of our employees and we consider the appraisals of individual employees being effective for our salary reviews and making promotion decisions of individual employees.

Training

We had devised a comprehensive training system during the Track Record Period. We require our new employees to attend an orientation training program in order to provide pre-job trainings to them. From time to time we provide on-the-job training to our employees to improve their customer service skills, technical skills and product knowledge.

We regularly organise in-house training programs to our staff at different levels in our pharmacies to enhance their knowledge on our product features, functionalities and dosages so as to ensure that they are able to correctly respond to enquiries from retail customers and refer the enquires to our pharmacist stationed in each pharmacy.

By participating in our training programs, our employees' knowledge on our products, sales and communication skills and techniques would be enhanced. In respect of recruitment, we recruit new employees based on specific job requirements, our resources and needs from time to time.

Employee relationship

In accordance with the applicable laws in the PRC, a trade union was formed by our employees, and we have provided the necessary facilities and venues and other resources for the union to carry out its activities. We believe that we maintain good working relationships with our employees. During the Track Record Period, we had not experienced any strikes or any labour disputes with our employees which had or might have a material adverse effect on our business.

Anti-corruption and anti-bribery policies

As part of our risk management and internal control measures, we have the following policies applicable across our Group, including our subsidiaries:

— Our management is responsible for the formulation and execution of anti-corruption and anti-bribery policies and measures.

— We conduct an assessment of risks of corruption and bribery each year.

— We conduct background investigations, including educational backgrounds, work experiences, criminal records, of any person to be employed or promoted for key positions as well as our distributors, suppliers and other intermediaries.

— We circulate our anti-bribery and anti-corruption guidelines and work ethics standards to all of our Directors and employees. The anti-bribery and anti-corruption systems prohibit all of our Directors and employees from providing or accepting any forms of gifts or rebates while conducting business. Our work ethics standards set out various guidelines concerning conflict of interest, confidentiality and reporting mechanism, etc.

— If corruption or bribery takes place within our Group, written reports of assessment and rectification measures will be circulated internally.

The Sole Sponsor and our Directors are of the view that the aforesaid internal control measures are sufficient and effective as there is no material incident of bribery, corruption or misconduct during the Track Record Period.

INTELLECTUAL PROPERTY RIGHTS

We value the intellectual property rights of our own-branded products and are committed to their protection. We rely on a combination of patents, trademarks, copyright and trade secrets, as well as employee and third-party confidentiality agreements to safeguard our intellectual property rights. We assigned a few staff specifically responsible for our product registration, patent application, intellectual property rights protection and other related matters.

Though all our operations took place in the PRC during the Track Record Period, we also obtained or applied for registration of some of our patents and trademarks in Hong Kong, Macau and Taiwan as our Directors take the view that due to the vicinity of these regions to the Guangdong province from where a majority of our revenue was derived during the Track Record Period, the registration of patents and trademarks in these regions would protect our interests in these intellectual property rights.

Patents

We own and have applied for patents to protect the techniques, inventions and advancements that we believe are significant to our business. As at the Latest Practicable Date, we had 29 invention patents (發明專利), one utility model patent (實用新型專利) and 15 design patents (外觀設計專利) registered in the PRC. According to our PRC Legal Advisors, under the Patent Law of the PRC, the respective validity period for our invention patents (發明專利), utility model patents (實用新型專利) and design patents (外觀設計專利) is 20 years, 10 years and 10 years, respectively, starting from the date when the relevant application was filed. 11 and one patents are registered in Hong Kong and Macau respectively, and we had 33, six and 20 invention patent (發明專利) applications pending for registration in the PRC, Taiwan and Hong Kong, respectively.

Our patents registered in the PRC protect seven types of our Chinese patent medicines and all of our modern decoction pieces. For details about our material patents, please refer to the paragraph headed "Intellectual Property Rights — Patents" in Appendix V headed "Statutory and General Information" to this [REDACTED].

The patent holder enjoys the right to exclude others from using, licensing and otherwise exploiting the patent. However, there is no assurance that our patents will not be challenged, which could be costly to defend and could divert our management from their normal responsibilities.

Trademarks

In addition to patents, as at the Latest Practicable Date, we had 110 trademarks including but not limited to 中智,  , 

and 

, of which 78 were registered in the PRC and 32 were registered outside the PRC including Hong Kong, Macau and Taiwan. We also have lodged 30 application(s) for trademark registration in the PRC. One of our principal trademarks, namely, "中智" was awarded as Guangdong Famous Trademark in 2010, which was renewed in 2013, the current expiry date of which will be in 2016. If we discover that any third-party has infringed the

exclusive right of our registered trademark, we would, through appropriate administrative and civil procedures, institute proceedings to apply for an injunction from the relevant court, authority or resolution of the infringement through consultation. The relevant court or authority can also impose fines, confiscate or destroy the infringing products or equipment used to manufacture the infringing products. For details about our material trademarks, please refer to the paragraph headed "Intellectual Property Rights — Trademarks" in Appendix V to this [REDACTED].

Some elements of our pharmaceutical product composition, formulation and delivery, as well as production methods or processes, involve unpatented, proprietary technology, processes, know-how or data. With respect to such proprietary know-how that is not patentable, we would rely on trade secret protection and confidentiality agreements in order to safeguard our interests. All of our research and development personnel have entered into confidentiality, non-competition and proprietary information agreements with us. These agreements require such employees to assign to us all of their inventions, designs and technologies that they may develop during their periods of employment with us. In addition, there is a strict segregation of duties among personnel involved in different stages of our production process. This, we believe, serves to reduce the risk of any single staff member obtaining the technical know-how relating to the entire production process.

If our trademark registrations are being challenged, our brand name is being damaged or our trade secrets are being divulged to our competitors, there could be a material adverse effect on our business. Please refer to the paragraph headed "Risk Factors — Risks relating to our business — We may not have sufficient protection to our intellectual property rights which may result in a negative impact on our business, financial condition and results of operation." in this [REDACTED] for the associated risks. Our Directors confirm that we had not violated any intellectual property rights of any third party or faced intellectual property claims by any third parties during the Track Record Period.

Domain names

We have registered the two domain names of zeus.cn and zzdyf.cn.

Copyrights

We have registered the copyright of Zeus Chinese Medicine Fingerprint Quality Control Database System (Abbreviated Form: ZEUSys)* (中智中藥指紋圖譜質量控制數據庫系統 (簡稱: ZEUSys)) V1.0 jointly owned by Zhongzhi Pharmaceutical and Central South University* (中南大學) with the National Copyright Administration of the PRC.

For details of our intellectual property rights, please refer to Appendix V to this [REDACTED].

Risk of Infringement

In addition to protecting our own intellectual property rights, our success also depends on our ability to minimise the risk that any of our products may have infringed the intellectual property rights of others. We follow a procedure under which our internal research and development staff and external patent agent or legal advisors would conduct a patent search for each product at the beginning of the product development process. Product development is only approved if the conclusion is that the proposed product would not infringe any third-party intellectual property rights discovered in our searches. We believe that the risk of infringing third-party intellectual property rights can be effectively reduced by our rigorous adherence to these procedures. During the Track Record Period, we were not involved in or threatened by any claim for infringement of any intellectual property rights, which would have a material financial and operational impact on us, either as claimant or as respondent. However, despite our internal control procedures, the risk of infringing third-party intellectual property cannot be eliminated entirely.

INSURANCE

We currently maintain the following insurance policies:

(a) accident insurances for certain of our employees;

(b) social welfare insurances in accordance with the relevant laws and regulations in the PRC; and

(c) insurance policies that cover our major fixed assets against damage caused by accidents and natural disasters such as fire.

Our Directors believe that our current insurance coverage is sufficient. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice aligned with our needs and with industry practice in the PRC. During the Track Record Period, we did not submit any material insurance claims.

COMPETITION

Pharmaceutical manufacturing

The pharmaceutical industry in the PRC is highly fragmented and competitive. According to the Ipsos Report, there were more than 1,500 Chinese patent medicine manufacturers and approximately 1,900 decoction pieces manufacturers in the PRC in 2013. In terms of sales revenue, the top five largest manufacturers of Chinese patent medicines and decoction pieces accounted for approximately 3.9% and 5.9% of the total industry revenue in 2013.

Our pharmaceutical manufacturing business faces competition from other pharmaceutical manufacturers with respect to product quality, price, variety, production capacity and marketing. Our Directors believe that we can compete effectively by virtue of (i) our well established brand name; (ii) our strong marketing capabilities and extensive sales and distribution network; (iii) our stringent quality control system; (iv) our strong research and development capabilities; and (v) our experienced and committed management team.

Operation of chain pharmacies

According to the Ipsos Report, the pharmaceutical retail market in Zhongshan is also very fragmented with approximately 687 chain pharmacies and 2,218 individual pharmacies in 2013. We are the largest self-operated pharmaceutical chain in Zhongshan in terms of the number of pharmacies and revenue for three consecutive years from 2012 to 2014.

We have certain competitive advantages over our competitors, including (i) our own-branded products are well received by the market; (ii) our pharmacies operate in convenient locations; and (iii) a wide range of pharmaceutical and healthcare products are offered in our pharmacies for customer selection. Furthermore, the new GSP standard promulgated by the CFDA on 1 June 2013 further increased the operating costs of individual pharmacies as all pharmacies are required to have a licensed pharmacist on site by end of 2015. It is expected that certain individual pharmacies will be forced out of the market. In light of the aforesaid, our Directors believe that we will maintain our leading position in the pharmaceutical retail market in Zhongshan.

PROPERTIES

Owned Properties

Our production facilities and offices of total gross floor area of approximately 46,700 sq.m. were built on six self-owned land parcels with an aggregate area of approximately 64,800 sq.m. in Zhongshan. We also own properties in Zhongshan including two parcels of land with an aggregate area of approximately 7,100 sq.m. for future development of our production facilities and shop units of approximately 634 sq.m. for our self-operated chain pharmacies and 45 sq.m. for rental purpose. The total market values of these owned properties were RMB94.8 million as at 31 May 2015. According to the opinion of our PRC Legal Advisors, we have obtained all the land use rights of the above land parcels and real estate title certificates of the buildings thereon.

We own certain units in Zhongshan with an aggregate gross area of approximately 1,600 sq.m. for staff quarters. According to our PRC Legal Advisors, as the land parcel on which the units were built is for industrial use, the owner of the land parcel has to obtain approval from the relevant government authorities for the change of the use of the land parcels from industrial to commercial and residential use before the building ownership certificates for the units can be issued. As at the Latest Practicable Date, the use of the land parcel has yet to be changed and thus, no building ownership certificates can be issued in relation to the units erected thereon. Notwithstanding that, our PRC Legal Advisors are of the opinion that we acquired the units legally and properly and had

paid the entire purchase price for the units in the sum of RMB1.5 million. Our Directors confirmed that since the date of our acquisition of these units in 2004 and 2005 and up to the Latest Practicable Date, we have not been subject to any penalty imposed by the relevant government authorities in respect of our uses of these units. If required, we would be able to identify alternatives for relocation of our staff quarters without any difficulty at minimal costs. We consider that the lack of building ownership certificates of these units would not affect our financial position and operations. For details of these properties, please refer to the valuation report as set out in Appendix III headed "Property Valuation" to this [REDACTED]. No market value was ascribed to these properties in the valuation report.

To ensure the safety of our staff residing in the staff quarters, we have implemented a series of internal house rules and regulations, such as prohibiting our staff from smoking or using electric heater and cooking stoves in the quarters. We have engaged an independent property management company to provide property management services in our staff quarters, such as security services, cleaning services as well as repair and maintenance of our fire safety system and water and electricity supply. The security officers of this property management company will inspect the quarters from time to time to ensure that our staff residing at the quarters would observe the above house rules and regulations from time to time.

Leased Properties

As at the Latest Practicable Date, save for one pharmacy which is operated in our own property, we entered into lease agreements in Zhongshan, for the operations of all other 200 chain pharmacies. We have also entered into five lease agreements for our self-operated chain pharmacies with operations to be commenced in or about July 2015.

In relation to 22 properties leased by us for the operation of our chain pharmacies, the lessors of these properties have not provided us with the relevant building ownership certificates. According to our PRC Legal Advisors, despite the lack of building ownership certificates, the relevant landlords were able to provide us with other certificates such as temporary property right certificates and construction certificates proving their rights to lease those properties to us.

As at the Latest Practicable Date, the lease agreements of 169 properties for operation of our chain pharmacies had not been registered with the relevant government authorities. As advised by our PRC Legal Advisors, the validity of these lease agreements is not affected by such failure to register and hence, we are entitled to continue to use the leased properties for the operation of our chain pharmacies. In respect of the non-registered lease agreements, correction orders may be given by the relevant government authorities to register the lease agreements within a prescribed period, failing which a fine ranging from RMB1,000 to RMB10,000 per unregistered lease agreement may be imposed on the relevant lessors. As at the Latest Practicable Date, we had not received any such correction orders.

We have requested the relevant lessors to register the lease agreements with the competent authorities. However, since they are all Independent Third Parties, we are not in the position to control whether and when each of them would register the lease agreements.

Save for the above, our PRC Legal Advisors are in the opinion that the lease agreements of the leased properties are legal and valid.

Our Directors confirm that as of 31 May 2015, none of our property interests has a carrying amount of 15% or more of our combined total assets.

LEGAL AND COMPLIANCE

Licences and permits

As a manufacturer of pharmaceutical products and pharmacy chains operator, we are subject to regulation and supervision by different levels of the food and drug administration in the PRC. We are also subject to other PRC laws and regulations that are applicable to manufacturers and distributors of pharmaceutical products in general.

A summary of the relevant PRC laws and regulations to which our business operations are subject in the PRC is set out in the "Regulation" section in this [REDACTED]. As confirmed by our PRC Legal Advisors, we have obtained all material licences, permits, approvals and consents for our business operations in the PRC and have complied with all relevant laws and regulations.

According to the Measures on the Administration of Pharmaceutical Products Registration* (《藥品註冊管理辦法》) promulgated by the CFDA on 10 July 2007 which became effective on 1 October 2007, pharmaceutical manufacturers are required to register their products with the CFDA and to obtain the necessary approval number prior to commencement of the manufacture of a particular type of pharmaceutical product. The registration is valid for a term of five years, which must be re-registered within six months prior to expiration by submitting required application materials to the relevant drug administration authorities. We will apply for renewal of the relevant certificates for our Chinese patent medicines as and when they are due to expire. We had not, in the past, encountered any difficulty in renewing such certificates for our products. As our products currently in production have been sold in the PRC for a considerable period of time, we do not foresee that there will be any major obstacle to the renewal process for our products. Our Director based on their experience in the pharmaceutical industry, take the view that the renewal of our prerequisite certificates is essentially a procedural matter.

The following permits are the major permits we have obtained as at the Latest Practicable Date for the purposes of our business and operations (apart from those pertaining to general business requirements):

Permits	Name of entities	Permit/licence/ certificate number	Expiry date
Pharmaceutical Manufacturing Permit (藥品生產許可證)	• Honeson Pharmaceutical	Yue 20110321	31 December 2015 *(Note)*
	• Zhongzhi Herb Pieces	Yue 20110328	31 December 2015 *(Note)*
Pharmaceutical Operation Permit (藥品經營許可證)	• Zhongzhi Pharmaceutical	Yue AA7600284	10 September 2019
	• Zhongzhi Chain Pharmacies	Yue BA7600036	25 August 2019
Production licence of industrial products (全國工業產品生產許可證)	• Zhongzhi Food	QS442014020306	25 March 2018
GMP Certificate (藥品生產質量管理規範認證證書)	• Honeson Pharmaceutical	GD20130135	27 October 2018
	• Zhongzhi Herb Pieces	GD20140307	22 December 2019
GSP Certificate (藥品經營質量管理規範認證證書)	• Zhongzhi Chain Pharmacies	B-GD-14-068	13 July 2019
	• Zhongzhi Pharmaceutical	A-GD-14-0845	17 August 2019
Medical Devices Operation Permit (醫療器械經營許可證)	• Zhongzhi Chain Pharmacies	Yue 481049	17 April 2019
Food circulation permit (食品流通許可證)	• Zhongzhi Pharmaceutical	SP4420000910106636	22 November 2015 *(Note)*
	• Zhongzhi Chain Pharmacies	SP4420001010402414	7 February 2017
Work Safety Standardisation Certificate (安全生產標準化證書)	• Zhongzhi Herb Pieces	Yue 201303566	December 2016
	• Honeson Pharmaceutical	Yue AQBQG 201401086	September 2017
Hygiene permit (衛生許可證)	• Zhongzhi Pharmaceutical	GDFDA Jian Zheng Zi No. (2014) 2000J4670	1 April 2018
	• Zhongzhi Chain Pharmacies	GDFDA Jian Zheng Zi No. (2013) 2000J2164	5 May 2017

Note: We will submit the applications for renewal approval of these permits to the relevant authority on or around 30 June 2015 and our Directors do not foresee there being any obstacles for the renewal.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

Legal proceedings in relation to our Group

Civil judgment against Honeson Pharmaceutical

On 13 November 1995, Zhongshan Intermediate People's Court* (中山市中級人民法院) (the "**Court**") pronounced a judgment namely, Civil Judgment (1993) Zhong Zhong Jing Chu Zi No.13* (民事判決書(1993)中中經初字第13號) (the "**Civil Judgment No.13**") in favour of Guangdong Overseas Chinese Trust and Investment Company* (廣東華僑信託投資有限公司) ("**Overseas Investment Company**"), being the complainant against Zhongshan Chinese Medicine Factory* (中山市中藥廠) (which name was changed to Honeson Pharmaceutical in January 2001) ("**Predecessor Honeson Pharmaceutical**") and Zhongshan Western Region Economic Development Company* (中山市西區經濟發展總公司) ("**Western Development Company**"), being together the defendants in relation to a dispute arising from a loan agreement entered into among Overseas Investment Company as lender, Predecessor Honeson Pharmaceutical as borrower and Western Development Company as guarantor in respect of a loan in the sum of RMB1 million. Western Development Company is an Independent Third Party but it was a group company to the then shareholder of the Predecessor Honeson Pharmaceutical. Both Predecessor Honeson Pharmaceutical and Western Development Company had defaulted repayment of the loan and accrued interests when they fell due in 1992. Pursuant to the Civil Judgment No.13, it was ordered that Predecessor Honeson Pharmaceutical and Western Development Company should jointly and severally pay the loan principal in the sum of RMB1 million and the respective interests and penalty interests to Overseas Investment Company.

On 9 December 2009, the Court ordered that all the creditor's right of Overseas Investment Company in the relevant loan agreement and the proceedings against Honeson Pharmaceutical had been properly assigned to Ms. Liang Miao Fen ("**Ms. Liang**"), an Independent Third Party, and thus, Ms. Liang was entitled to enforce the Civil Judgment No. 13 in lieu of Overseas Investment Company. In July 2011, Western Development Company had provided a sum of RMB1 million in cash and certain properties as securities for the enforcement of Civil Judgment No. 13.

Western Development Company lodged a claim on 23 October 2013 on the grounds that Overseas Investment Company, being a state-owned enterprise, did not follow the relevant laws and regulations when it transferred its right to enforce the judgment debt, which constituted a state-owned asset, to an individual and the claim was subsequently dismissed. Western Development Company had thereafter filed an appeal, and the result of the appeal was not determined as at the Latest Practicable Date.

By a written confirmation sealed with the seal of Western Development Company dated 14 April 2015, Western Development Company confirmed that, it had undertaken to Honeson Pharmaceutical that it should bear all liabilities arising from the Civil Judgment No. 13 (the "**Western Development Company's Undertaking**") when we acquired Honeson Pharmaceutical.

Our Directors estimated that the maximum financial exposure of our Group in the enforcement of the Civil Judgment No.13 would be approximately RMB4 million, being the aggregate of (i) the sum of RMB3,133,360 (as set out in the judgment pronounced by the relevant court in 2013, consisting of both the principal of RMB1 million and the interests accrued up to 22 July 2011); and (ii) the interests subsequently accrued therefrom and up to the Latest Practicable Date.

Notwithstanding Western Development Company's Undertaking, the Controlling Shareholders have, pursuant to the deed of indemnity (details of which were set out in the paragraph headed "Summary of material contracts" in Appendix V to this [REDACTED]), jointly and severally, irrevocably and unconditionally, agreed to indemnify our Group for all losses and damages arising from the dispute amongst Predecessor Honeson Pharmaceutical, Western Development Company and Overseas Investment Company, the Civil Judgment No.13 and the appeal lodged by Western Development Company. In light of the above, our Directors take the view that the possibility of any outflow in settlement from Honeson Pharmaceutical or our Group as a whole as a result of the enforcement of Civil Judgment No. 13 would be remote.

Administrative penalty against Honeson Pharmaceutical

Prior to our acquisition of Honeson Pharmaceutical in 2007, Honeson Pharmaceutical had been subjected to administrative penalty by the PRC government for contravention of the National Anti-Unfair Competition Law in the PRC 《中華人民共和國反不正當競爭法》from 2005 to 2006 (the "**2005/2006 Anti-Unfair Competition Contravention**"). According to our PRC Legal Advisors, the Zhongshan Administration for Industry and Commerce* (中山市工商行政管理局) pronounced a judgment, namely Administration Penalty (2015) No. 5* (行政處罰決定書) (the "**Administration Penalty**"), pursuant to which as a result of the 2005/2006 Anti-Unfair Competition Contravention, the illegal income in the sum of RMB677,627.06 would be confiscated and a penalty in the sum of RMB80,000 was imposed on Honeson Pharmaceutical. The said confiscated illegal income and the penalty in an aggregate amount of RMB757,627.06 was fully settled by Honeson Pharmaceutical in March 2015.

Further, according to the confirmation issued by Zhongshan Administration for Industry and Commerce* (中山市工商行政管理局), dated 28 February 2015, it was confirmed, among others, that after we had acquired Honeson Pharmaceutical, both Honeson Pharmaceutical and Zhongzhi Pharmaceutical had not been in breach of any relevant laws and regulations.

Non-compliance incidents

The table below summarises the material non-compliance incidents relating to our Group during the Track Record Period:

Non-compliance incidents	Reasons for the non-compliance	Measures taken to prevent any future breaches and ensure on-going compliance
1. Production and sale of sub-standard "Ganoderma" (靈芝) As set out in the administrative penalty letter from the Zhongshan Food and Drug Administration ("**ZFDA**") dated 24 August 2012, Zhongzhi Herb Pieces was fined for RMB1,500 for the production of sub-standard "Ganoderma" and confiscated an amount and products for the total value of RMB750. As set out in the administrative penalty letter from the ZFDA dated 21 August 2012, Zhongzhi Pharmaceutical was confiscated a sum of RMB108.75, being the amount it gained from the sale of sub-standard "Ganoderma" to Zhongzhi Chain Pharmacies, which was purchased from Zhongzhi Herb Pieces. As set out in the administrative penalty letter from the ZFDA dated 21 August 2012, Zhongzhi Chain Pharmacies was confiscated the amount and products for the total value of RMB767.11 for the sale of sub-standard "Ganoderma" which was purchased from Zhongzhi Pharmaceutical.	Pursuant to Article 49 and Article 75 of the Drug Administration Law (藥品管理法) and Article 81 of the Regulations for the Implementation of the Drug Administration Law (藥品管理法實施條例), it is illegal to produce and sell pharmaceutical products of standard which is different from that set out in the Chinese Pharmacopoeia. At the material time, we were not aware that the standard of "Ganoderma" produced by us was different from those as set out in the prevailing Chinese Pharmacopoeia.	(i) Our production team and quality control team work together to ensure that all our products will comply with the prevailing standard of the Chinese Pharmacopoeia or the Drug Standards before we commence production of the products; (ii) our quality control department will double check the products to ensure compliance with the standard set out in the prevailing Chinese Pharmacopoeia before we launch the products in the market; (iii) Mr. Tang Lin, the head of technical department of Zhongzhi Pharmaceutical and a member of our senior management, will review and examine the quality control procedures performed by our quality control team when there is an update on the standards set out in the prevailing Chinese Pharmacopoeia and the Drug Standards; and (iv) we will enhance our quality control policy by increasing the number of quality inspections to be performed by external quality control laboratories.

Non-compliance incidents	Reasons for the non-compliance	Measures taken to prevent any future breaches and ensure on-going compliance
2. Production of sub-standard "Agarwood" (沉香) As set out in the administrative penalty letter of the ZFDA dated 27 February 2013, Zhongzhi Herb Pieces was confiscated an amount and products for the total value of RMB1,376.38 and was fined for RMB2,752.75 for the production of sub-standard "Agarwood"	— ditto —	— ditto —

Our Directors confirm that apart from the above non-compliance incidents, no penalties had been imposed on us by the relevant food and drug administration authorities in the PRC during the Track Record Period and up to the Latest Practicable Date.

Non-compliance incidents	Reasons for the non-compliance	Measures taken to prevent any future breaches and ensure on-going compliance
3. Failure to pay adequate social insurance fund contributions and housing provident fund contributions for our employees	According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例), we are required to make social insurance fund contributions and housing provident fund contributions for our employees in the PRC. Due to administrative oversight, our PRC subsidiaries (being Zhongzhi Pharmaceutical, Zhongzhi Chain Pharmacies, Zhongzhi Herb Pieces and Honeson Pharmaceutical) did not make adequate contributions to the social insurance fund and housing provident fund for our employees during the Track Record Period. For each of the three years ended 31 December 2014, the underpaid social insurance fund contributions and housing provident fund contributions amounted to approximately RMB1.9 million, RMB1.9 million and RMB0.5 million, respectively. According to the relevant laws and regulations, we may be subject to a fine equal to 0.05% per day of the underpaid social insurance fund contribution, and in certain situations, a fine equal to three times of the amount due. As regards the housing provident fund contributions, the relevant government authority may require us to make the underpaid amount within a given period, and, if we fail to do so, it may impose a fine ranging from RMB10,000 to RMB50,000 and may apply for a PRC court order to enforce payment.	From 1 July 2014 onwards, our PRC subsidiaries have been paying adequate contributions to the social insurance fund and housing provident fund for our employees. Furthermore, we have made provisions for the underpaid social insurance fund contributions and housing provident fund contributions of approximately RMB1.9 million, RMB1.9 million and RMB0.5 million for the underpaid social insurance and housing provident fund contributions for each of the three years ended 31 December 2014, respectively. We have provided trainings on corporate governance to our Directors. On a monthly basis, the head of our human resources department carries out the following procedures to ensure that we comply with the laws and regulations related to social insurance fund and housing provident fund contributions: i) review the staff record and examine whether our Group has made social insurance fund and housing provident fund contributions for every staff; ii) report to our finance department on the number of staff, social insurance fund and housing provident fund contribution. Our finance department would check the amount of contributions against the staff list; and iii) investigate variances with the records kept by our finance department, if any.

Pursuant to the respective confirmation issued by the Human Resources and Social Protection Bureau of Zhongshan City* (中山市人力資源和社會保障局) on 13 January 2015 (with respect to Zhongzhi Pharmaceutical and Zhongzhi Herb Pieces) and on 19 January 2015 (with respect to Honeson Pharmaceutical and Zhongzhi Chain Pharmacies), the competent authority in issuing confirmations with respect to social insurance issue in Zhongshan, it was confirmed that each of Zhongzhi Pharmaceutical, Honeson Pharmaceutical, Zhongzhi Chain Pharmacies and Zhongzhi Herb Pieces had made social insurance fund contributions for its employees from 1 January 2012 to 31 December 2014 and up to the dates of the respective confirmations and each of Zhongzhi Pharmaceutical, Honeson Pharmaceutical, Zhongzhi Chain Pharmacies and Zhongzhi Herb Pieces is not subject to any administrative action or penalty for breach of the relevant social insurance laws or regulations.

Pursuant to the respective confirmation issued on 20 January 2015 by the Housing Provident Fund Administrative Centre of Zhongshan City* (中山市住房公積金管理中心), the competent authority in issuing confirmation with respect to housing provident fund in Zhongshan, it was confirmed that each of Zhongzhi Pharmaceutical, Honeson Pharmaceutical, Zhongzhi Chain Pharmacies and Zhongzhi Herb Pieces had made contributions to the housing provident funds for its employees from 1 January 2012 to 31 December 2014 and up to the date of the confirmation and each of Zhongzhi Pharmaceutical, Honeson Pharmaceutical, Zhongzhi Chain Pharmacies and Zhongzhi Herb Pieces is not subject to any administrative action or penalty for breach of the relevant housing provident fund laws or regulations.

As at the Latest Practicable Date, we did not receive any notifications from the relevant government authorities requiring us to make the outstanding social insurance fund and housing provident fund contributions.

In light of the above-mentioned confirmations, our PRC Legal Advisors have confirmed that (i) the non-compliance relating to such underpaid contributions is not material to our Group; and (ii) the risks of being penalised for such historical non-compliances are low in practice.

On-going compliance measures

To avoid recurrence of the abovementioned non-compliance incidents and to ensure ongoing compliance with relevant laws, rules and regulations by our Group, we have implemented the following internal control measures:

(a) our Group appointed Ms. Chow Fung Ling, an associate member of The Hong Kong Institute of Company Secretaries and an associate member of the Institute of Chartered Secretaries and Administrators, on 9 March 2015, to act as company secretary to oversee the company secretarial matters of our Group;

(b) our Group has appointed Guosen Securities (HK) Capital Company Limited as the compliance advisor to advise on ongoing compliance requirements and other issues under the Listing Rules and other applicable laws and regulations in Hong Kong;

(c) our Group will continue to engage Ernst & Young to audit the accounts of our Group; and

(d) our Group has established an audit committee comprising all independent non-executive Directors to oversee the financial reporting and internal control procedures of our Group, and aims to review the effectiveness of our Group's internal control system.

Our Directors are of the view that the aforesaid remedial measures and on-going compliance measures are sufficient and effective in preventing similar non-compliance incidents from re-occurring again in the future as no such similar non-compliance incidents have occurred since its implementation and up to the Latest Practicable Date. In light of the preventive measures and its effectiveness, the Sole Sponsor is of the view that our Group has adequate and effective internal control procedures in place for the purpose of Rule 8.04 of the Listing Rules.

AWARDS AND CERTIFICATIONS

During the Track Record Period and up to the Latest Practicable Date, we had received numerous awards and certifications in recognition of our achievements, including the following:

Major awards and certifications of Zhongzhi Pharmaceutical

Date of awards and certifications	Awards/Certificates	Awarding authority
June 2014	Guangdong province enterprise of observing contract and valuing credit* (廣東省守合同重信用企業)	Guangdong Province Administration for Industry and Commerce* (中山市工商行政管理局)
May 2014	Top 10 potential products of pharmaceutical E-Commerce — American ginseng modern decoction pieces* (醫藥電商十大潛力產品西洋參破壁飲片榮獲)	Pharmaceutical E-Commerce Branch of China Medical Pharmaceutical Material Association* (中國醫藥物資協會醫藥電子商務分會)
May 2014	Top Ten Meritorious Enterprise for the 5th Anniversary of Chain Pharmacy Branch Association of China Medical Pharmaceutical Material Association during 2009–2014* (中國醫藥物資協會連鎖藥店分會成立五周年2009–2014 十大功勳企業)	China Medical Pharmaceutical Material Association* (中國醫藥物資協會)
December 2013	Guangdong Innovative Enterprises* (effective from 2013 till 2016) (廣東省新型企業，有效期自2013年至2016年)	Guangdong Provincial Bureau for Science and Technology* (廣東省科學技術廳), Development and Reform Commission of Guangdong Province* (廣東省發展和改革委員會), The Economic & Information Commission of Guangdong Province (廣東省經濟和信息化委員會) and others
May 2013	Enterprise of advanced technology of pharmaceutical industry of Guangdong province in 2012* (2012年度廣東省醫藥行業科技創新先進企業)	Guangdong Province Pharmaceutical Industry Association* (廣東省醫藥行業協會)
February 2013	Second prize for research and industrialisation of modern decoction pieces* (中藥破壁飲片關鍵技術研究與產業化二等獎)	People's Government of Guangdong Province* (廣東省人民政府)
February 2013	Second prize for research and industrialisation of modern decoction pieces* (中藥破壁飲片關鍵技術研究與產業化二等獎)	People's Government of Guangdong Province* (廣東省人民政府)
July 2012	Zhongshan science technology award — First prize of technology advancement* (中山市科學技術獎勵 — 科技進步獎一等獎)	People's Government of Zhongshan* (中山市人民政府)

Date of awards and certifications	Awards/Certificates	Awarding authority
February 2012	Best potential award in 2011* (2011年度最具發展潛力獎)	Chain Pharmacy Committee of China Medical Pharmaceutical Material Association* (中國醫藥物資協會連鎖藥店委員會)
November 2011	Zhongshan Patent Excellence Award — Method for processing traditional decoction pieces into modern decoction pieces* (中山市專利優秀獎 — 一種中藥材破壁粉的加工方法)	Zhongshan Intellectual Property Bureau* (中山市知識產權局)

Major awards and certifications of Zhongzhi Chain Pharmacies

Date of awards and certifications	Awards/Certificates	Awarding authority
March 2014	Enterprise of advance human resources* (2013年度人才工作先進企業)	Zhongshan Government Shiqi Office (中山市人民政府石岐區辦事處)

Major awards and certifications of Zhongzhi Herb Pieces

Date of awards and certifications	Awards/Certificates	Awarding authority
August 2013	Enterprise of observing contract and valuing credit* (2013年廣東省守合同重信用企業)	Guangdong Province Administration for Industry & Commerce* (廣東省工商行政管理局)
July 2012	Zhongshan science technology award — First prize of technology advancement* (中山市科學技術獎勵 — 科技進步獎一等獎)	People's Government of Zhongshan* (中山市人民政府)

Major awards and certifications of Honeson Pharmaceutical

Date of awards and certifications	Awards/Certificates	Awarding authority
July 2014	2014 Corporate Culture Outstanding Unit* (2014年度企業文化卓越單位)	Zhongshan Government West District Office* (中山市人民政府西區辦事處)
4 May 2014	Certificate of inclusion of Seven Star Tea Oral Solution in level 2 of state protected Chinese medicine* (小兒七星茶口服液列為國家二級中藥保護品種)	State Food and Drug Administration* (國家食品藥品監督管理總局)
March 2014	Enterprise with tax amount over RMB5 million in 2013* (2013年度創税超500萬企業)	Zhongshan Government West District Office* (中山市人民政府西區辦事處)
1 June 2013	Enterprise of observing contract and valuing credit for 16 consecutive years* (連續十六年廣東省守合同重信用企業)	Guangdong Province Administration for Industry & Commerce* (廣東省工商行政管理局)
May 2013	Enterprise of harmonious labour relations in 2012* (2012年度勞動關係和諧企業)	Zhongshan Human Resources and Social Security Bureau* (中山市人力資源和社會保障局)
March 2013	Enterprise with tax amount over RMB5 million in 2012* (2012年度創税超500萬企業)	Zhongshan Government West District Office* (中山市人民政府西區辦事處)
December 2012	Certificate of Technology Association Membership* (技術協會會員單位)	Guangdong Food and Drug Technology Association for Evaluation and Certification* (廣東省食品藥品審評認證技術協會)
December 2012	Safe production advance Unit in 2012* (2012年度安全生產工作先進單位)	Zhongshan Government West District Office* (中山市人民政府西區辦事處)
June 2012	Zhongshan Environmental Protection Integrity Enterprise* (2011年度中山市環保誠信企業)	Zhongshan Environmental Protection Bureau* (中山市環境保護局)

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into certain transactions with parties who are connected persons during the Track Record Period and are expected to continue after the [REDACTED], which will constitute continuing connected transactions and are not exempted from all reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules upon [REDACTED].

Contractual Arrangements

As disclosed in the "Contractual Arrangements" section in this [REDACTED], the principal business of Zhongzhi Herb Pieces is the production of decoction pieces which is a prohibited category for foreign investors to conduct business through directly-held equity interests under the relevant PRC laws and regulations, and therefore we cannot own any equity interest in Zhongzhi Herb Pieces. As a result, Zhongzhi Pharmaceutical, a wholly foreign owned enterprise, has entered into a series of contracts narrowly tailored to provide Zhongzhi Pharmaceutical with control over Zhongzhi Herb Pieces and grant Zhongzhi Pharmaceutical the right to purchase the equity interests of Zhongzhi Herb Pieces when and to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangements, Zhongzhi Pharmaceutical supervises and controls the business operations of Zhongzhi Herb Pieces and obtain all economic benefits derived by Zhongzhi Herb Pieces.

The Contractual Arrangements consist of five contracts: (i) Operation Services Agreement; (ii) Call Option Agreement; (iii) Equity Pledge Agreement; (iv) Power of Attorney; and (v) Exclusive Intellectual Property Purchase Agreement. For details of these contracts, please refer to the "Contractual Arrangements" section in this [REDACTED]. Our PRC Legal Advisors have advised that the Contractual Arrangements as a whole and each of the contracts comprising the Contractual Arrangements are legal, valid and binding on the parties and are enforceable under the applicable PRC laws and regulations.

Relevant Connected Persons under the Contractual Arrangements

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their connection with our Group:

Name	Connected relationship
Mr. Lai	Mr. Lai is a Controlling Shareholder and our Director and therefore is a connected person of our Company pursuant to Rule 14A.07(1) of the Listing Rules.
Ms. Mou Mr. Cao	Ms. Mou and Mr. Cao are our Directors and therefore are connected persons of our Company pursuant to Rule 14A.07(1) of the Listing Rules.

Name	Connected relationship
Zhongzhi Herb Pieces	Zhongzhi Herb Pieces is owned as to 87.56% by Mr. Lai and is therefore an associate of Mr. Lai and hence a connected person of our Company pursuant to 14A.07(4) of the Listing Rules.

Our Directors' view

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms, in the ordinary and usual course of our Group's business and are fair and reasonable, and are in the interests of our Company and our Shareholders as a whole.

Our Directors believe that our Group's structure whereby the financial results of Zhongzhi Herb Pieces is consolidated into our Group's financial results as if it was our Group's wholly owned subsidiary, and all economic benefits of its business flow to our Group, places our Group in a special position in relation to the continuing connected transactions. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if the continuing connected transactions under the Contractual Arrangements are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the requirement for publishing an announcement and obtaining approval of the independent Shareholders.

In addition, given that the Contractual Arrangements were entered into prior to the [REDACTED] and the adoption of Contractual Arrangements and the key terms thereof have been disclosed in this [REDACTED], potential investors of our Company will participate in the [REDACTED] based on such disclosure. Our Directors consider that strict compliance with the announcement and the independent Shareholders' approval requirements in respect thereof immediately after [REDACTED] would be unnecessary and add to extra administrative costs to our Company.

Furthermore, to ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, the management of our Group plans to take the following measures:

(a) as part of the internal control measures, major issues arising from implementation and performance of the Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than on a quarterly basis. Our Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements;

(b) matters relating to compliance and regulatory enquiries from governmental authorities (if any) will be discussed at such regular meetings which will be no less frequent than on a quarterly basis;

(c) the relevant business units and operation divisions of our Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters; and

(d) our Company shall comply with the conditions prescribed under the waiver given by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements.

Waiver Application

Pursuant to Rule 14A.105 of the Listing Rules, our Company has applied to the Stock Exchange, and the Stock Exchange has agreed to grant a waiver from strict compliance with (i) announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, subject to the following conditions:

(a) *No change without independent non-executive Directors' approval*: No change to the terms of the Contractual Arrangements will be made without the approval of the independent non-executive Directors.

(b) *No change without independent Shareholders' approval*: No change to the terms of the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) *Economic benefits and flexibility*: The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by Zhongzhi Herb Pieces through: (i) our Group's option (if and when so allowed under the applicable PRC laws) to purchase, all or part of the entire equity interests in Zhongzhi Herb Pieces at the lowest price as permitted by the applicable PRC laws and regulations; (ii) the business structure under

which the profits generated by Zhongzhi Herb Pieces are retained by our Group; and (iii) our Group's absolute right to control the management and operation of, as well as, in substance, all of the voting rights of Zhongzhi Herb Pieces.

(d) *Renewal*: Upon the request by Zhongzhi Pharmaceutical, the Contractual Arrangements shall be unconditionally renewed at the request of Zhongzhi Pharmaceutical for ten years and for an indefinite number of successive ten years thereafter.

(e) *Ongoing reporting and approvals*: our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual reports and accounts in accordance with the relevant provisions of the Listing Rules.

- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements so that the profits after tax generated by Zhongzhi Herb Pieces have been mainly retained by Zhongzhi Pharmaceutical; (ii) no dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and Zhongzhi Herb Pieces during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole.

- Our Company's auditors will carry out procedures annually on the transactions under the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and no dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.

- For the purposes of Chapter 14A of the Listing Rules, Zhongzhi Herb Pieces will be treated as our Company's wholly owned subsidiary, and its directors, chief executive or substantial shareholders and their respective associates (as defined in the Listing Rules) will be treated as connected persons of our Company and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

- Zhongzhi Herb Pieces undertakes that, for so long as the Shares are [REDACTED] on the Stock Exchange, Zhongzhi Herb Pieces will provide our Group's management and our Company's auditors with full access to its relevant records for the purpose of procedures to be carried out by our Company's auditors on the connected transactions.

Sole Sponsor's View

The Sole Sponsor is of the view that the terms of the contracts constituting the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations and that the Contractual Arrangements have been entered into in our ordinary and usual course of business, on normal commercial terms and are fair and reasonable so far as our Group is concerned and are in the interests of our Shareholders as a whole. With respect to the terms of the contracts constituting the Contractual Arrangements, it is a justifiable and normal business practice to ensure that (i) the financial and operational results of Zhongzhi Herb Pieces can be effectively controlled by our Group; (ii) Zhongshan Pharmaceutical can obtain all economic benefits derived from Zhongzhi Herb Pieces; and (iii) any possible disposal of assets of Zhongzhi Herb Pieces to its shareholders can be prevented, on an uninterrupted basis.

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information regarding our Directors and senior management:

Name	Age	Date of joining our Group	Date of appointment as Director/ senior management	Position	Roles and responsibilities	Relationship with the other Directors
Directors						
Mr. Lai Zhi Tian (賴智填)	47	27 September 1999	30 January 2015	Executive Director, Chairman of the Board and general manager of our Group	Formulating the corporate strategies and planning the business development of our Group	The spouse of Ms. Jiang Li Xia
Ms. Jiang Li Xia (江麗霞)	50	24 February 2009	12 September 2014	Executive Director	Supervising business administration	The spouse of Mr. Lai Zhi Tian
Ms. Mou Li (牟莉)	52	1 March 2002	30 January 2015	Executive Director and chief financial officer	Supervising financial management and control	Not applicable
Mr. Cao Xiao Jun (曹曉俊)	47	8 March 2010	30 January 2015	Executive Director and deputy general manager	Supervising business development and overseeing sales and marketing activities	Not applicable
Mr. Ng Kwun Wan (吳冠雲)	51	8 June 2015	8 June 2015	Independent non-executive Director	Providing independent advice to the Board	Not applicable
Mr. Wong Kam Wah (黃錦華)	46	8 June 2015	8 June 2015	Independent non-executive Director	Providing independent advice to the Board	Not applicable
Mr. Zhou Dai Han (周岱翰)	74	8 June 2015	8 June 2015	Independent non-executive Director	Providing independent advice to the Board	Not applicable
Senior management						
Ms. Jiang Mei Fang (姜梅芳)	53	1 June 2000	1 June 2003	General Manager of Zhongzhi Chain Pharmacies	Responsible for the overall management of Zhongzhi Chain Pharmacies and our chain pharmacies operations	Not applicable
Mr. Li Wu Yi (李武毅)	43	12 July 2010	2 September 2013	General Manager of Zhongzhi Herb Pieces	Responsible for the overall management of Zhongzhi Herb Pieces	Not applicable

Name	Age	Date of joining our Group	Date of appointment as Director/ senior management	Position	Roles and responsibilities	Relationship with the other Directors
Mr. Chen Jiong (陳炯)	41	31 August 2007	1 January 2010	General Manger of Honeson Pharmaceutical	Responsible for the overall management of Honeson Pharmaceutical	Not applicable
Mr. Tang Lin (唐琳)	51	31 August 2007	1 January 2014	Head of the technical department of Zhongzhi Pharmaceutical and chief engineer of Honeson Pharmaceutical	Responsible for the management of the technical department of Zhongzhi Pharmaceutical, supervising the engineering department of Honeson Pharmaceutical and reviewing the quality control procedures performed by our quality control team	Not applicable

DIRECTORS

Our Board consists of seven Directors, comprising of four executive Directors and three independent non-executive Directors. For the residential addresses of each Director, please refer to the "Directors and Parties Involved in the [REDACTED]" section in this [REDACTED].

Executive Directors

Mr. Lai Zhi Tian (賴智填), aged 47, is the spouse of Mrs. Lai. He is the founder, Controlling Shareholder, an executive Director, Chairman of the Board and general manager of our Group. He joined our Group on 27 September 1999 and is responsible for formulating the corporate strategies and planning the business development of our Group.

Mr. Lai was qualified as a medicine operator* (醫藥經營技師) of the Department of Labour of Guangdong Province* (廣東省勞動廳) in October 1998. He was qualified as a pharmacist (藥師) of the Human Resources Department of Puning City* (普寧市人事局) in November 1999.

Mr. Lai has over 30 years of experience in the pharmaceutical industry and has extensive experience in pharmaceutical products development, manufacturing and distribution. From September 1981 to April 1994, he worked as a salesperson at the Puning Zhang Mei Herbs Shop* (普寧市長美藥材站). From May 1994 to September 1998, he worked as a salesperson at Zhongshan Herbs Company* (中山市藥材公司). Mr. Lai was a manager of Zhongzhi Pharmaceutical before its transformation from a collective enterprise to a limited liability company. In September 1999, he

became a shareholder of our Group. Under the leadership of Mr. Lai, our Group's business expanded from the distribution of pharmaceutical products to the operation of chain pharmacies and the production of pharmaceutical products.

Mr. Lai is currently the vice chairman of China Pharmaceutical Materials Association* (中國醫藥物資協會) and the president of Guangdong Pharmacies Union* (廣東藥店聯盟).

Mr. Lai is an adjunct associate professor and a mentor of the Master's programme at the Research Centre of Chinese Herbal Resources (Science and Engineering)* (中藥資源科學與工程研究中心) of Guangzhou University of Chinese Medicine* (廣州中醫藥大學).

Our Company's corporate governance practices are based on principles and code provisions as set out in the Corporate Governance Code ("**CG Code**") in Appendix 14 to the Listing Rules. Except for the deviation from CG Code provision A.2.1, our Company's corporate governance practices have complied with the CG Code.

CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Lai is the Chairman and the general manager of our Group. In view of Mr. Lai is the founder of our Group and has been operating and managing our Group since 1999, our Board believes that it is in the best interest of our Group to have Mr. Lai taking up both roles for effective management and business development. Therefore our Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance.

Ms. Jiang Li Xia (江麗霞), aged 50, is the spouse of Mr. Lai and is a Controlling Shareholder and an executive Director of our Group. Mrs. Lai graduated from Puning City Hua Qiao Secondary School* (普寧市華僑中學) in July 1982. Prior to joining our Group, Mrs. Lai has been a volunteer in the local community centre in a suburb of Vancouver, Canada from 2005 to 2008. She assisted in the operation of the centre where she gained her relevant experience in administration. Mrs. Lai joined our Group on 24 February 2009 and is responsible for supervising business administration of our Group. Her duties include overseeing human resources matters and co-ordinating among different departments to ensure sufficiency of office support for the operation of our Group.

Ms. Mou Li (牟莉), aged 52, is an executive Director and chief financial officer of our Group. She joined our Group on 1 March 2002 and is responsible for supervising the financial management and control of our Group. She has extensive experience in financial management, with particular expertise in financial control and management, internal control and internal audit. Ms. Mou graduated from the Central Party School of the Communist Party of the PRC* (中央黨校經濟管理專業本科) in December 1996. She was licensed as a senior accountant by the Heilongjiang Department of Human Resource* (黑龍江省人事廳) in September 1997.

Ms. Mou has over 30 years of experience in accounting and finance. Prior to joining our Group, she worked as an accountant in the Heilongjiang Hao Liang He Fertiliser Plant* (黑龍江浩良河化肥廠) from July 1982 to October 1989. She served as the financial manager in Heilongjiang Nongken Investment Invitation Bureau* (黑龍江農墾招商局) from November 1989 to July 1997. She worked as the financial manager in Heilongjiang Nongken Production Information Company* (黑龍江農墾生產資料總公司) from August 1997 to June 2001.

Mr. Cao Xiao Jun (曹曉俊), aged 47, is an executive Director and is the deputy general manager of our Group. He joined our Group on 8 March 2010 and is responsible for supervising business development and overseeing sales and marketing activities of our Group. He obtained a Bachelor degree of Chemistry and Pharmacy Training from China Pharmaceutical University* (中國藥科大學) in July 1989. Mr. Cao was qualified as a pharmaceutical manufacturing engineer* (製藥工程師) and obtained a professional qualification in pharmacy* (藥學) in July 1999 and October 2002 respectively.

Mr. Cao has over 25 years of experience in the pharmaceutical industry. He served as the marketing manager in Guangdong Shiqi Pharmaceutical Company Limited* (廣東石岐製藥公司) from July 1989 to March 1997 and since then to June 2000, he became the deputy general manager of Shenzhen Wedge Pharmaceutical Chains Company Limited* (深圳市萬澤醫藥有限公司). From June 2000 to July 2009, he served as the deputy general manager of Shenzhen Naber Medicine Company Limited* (深圳市南北醫藥有限公司).

Independent Non-executive Directors

Mr. Ng Kwun Wan (吳冠雲), aged 51, an independent non-executive Director of our Group. He obtained the Bachelor of Arts degree in Accounting and Finance from the Manchester Polytechnic in July 1988 and the Master of Commerce majoring in Accounting from the University of New South Wales in May 1990. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1993.

Mr. Ng has over 20 years of experience in management. From November 1994 to October 1995 and from October 1995 to June 1998, Mr. Ng worked as a project manager for New World Development (China) Limited and New World Infrastructure Limited respectively. From July 1998 to August 2004, he worked for New World China Enterprises Projects Limited, a wholly owned subsidiary of New World Development Company Limited (Stock Code: 17), and his last position was deputy general manager. From September 2006 to March 2009, he worked as the general manager of industrial operations in the real estate department of Smart Faith Management Limited (a subsidiary of South China (China) Limited (Stock Code: 413)). Mr. Ng has been an independent non-executive director of China Flavors and Fragrances Company Limited (Stock Code: 3318) since December 2009.

Mr. Wong Kam Wah (黃錦華), aged 46, an independent non-executive Director of our Group. He obtained his Bachelor's degree in Laws from the City Polytechnic of Hong Kong, the predecessor institution of the City University of Hong Kong, in December 1994. He obtained a postgraduate certificate in laws from the City University of Hong Kong in November 1995 and a Master degree in Laws from the King's College London, the University of London in November 1996. He further completed the Diploma in Insolvency held by the Hong Kong Institute of Certified Public Accountants in June 2010. Mr. Wong was admitted as a solicitor of Hong Kong in August 1999.

Mr. Wong has over 15 years of experience in legal practice. He is currently a partner of Messrs. Lau Edward, Wong & Lou.

Mr. Zhou Dai Han (周岱翰), aged 74, an independent non-executive Director of our Group. He obtained a Bachelor degree of Medical Treatment awarded by the Guangzhou College of Chinese Medicine* (廣州中醫學院) (the predecessor institution of the Guangzhou University of Chinese Medicine* (廣州中醫藥大學)) in August 1966. Mr. Zhou was accredited as an instructor of the Teaching and Inheritance of Experience of Famous and Veteran Doctors of Traditional Chinese Medicine* (全國老中醫藥專家學術經驗繼承指導老師) in November 2002. He was accredited as a Renowned Chinese Medical Practitioner of Guangdong Province* (廣東省名中醫) in October 2012.

Mr. Zhou has over 30 years of experience in the field of Chinese medicines. Since 1976, Mr. Zhou has been working at the Guangzhou College of Chinese Medicine as a lecturer, associate professor, associate dean of the tumor research center* (腫瘤研究室副主任), chief medical practitioner* (主任醫師), dean of the tumor department* (腫瘤科主任) and professor.

Mr. Zhou completed the Listed Companies Independent Directors Training Programme* (上市公司獨立董事培訓班) co-organised by the Securities Association of China and the Shenzhen Stock Exchange in January 2003.

Other disclosure pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed above, each Director does not have any relationship with other Directors, senior management, substantial shareholder or controlling shareholder of our Company.

Save as disclosed above, each of our Directors has confirmed that he/she has not held any other directorships in listed companies during the three years immediately prior to the date of this [REDACTED] and that there are no other matters concerning our Directors' appointment that need to be brought to the attention of our Shareholders and the Stock Exchange or shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Ms. Jiang Mei Fang (姜梅芳), aged 53, joined our Group on 1 June 2000 as a pharmacist (藥師) of Zhongzhi Chain Pharmacies. In March 1980, Ms. Jiang graduated from the School of Hygiene of Huangshi City of Hubei* (湖北省黃石市衛生學校). In 1995, Ms. Jiang became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部). In December 2011, she was qualified as a medical devices enterprise supervisor* (醫療器械企業負責人).

Prior to joining our Group, from March 1980 to May 1987, Ms. Jiang worked as a pharmacist (藥師) at Huangshi Hua Xin Hospital Company Limited* (黃石市華新醫院有限責任公司), formerly known as Hua Xin Cement Group Worker's Hospital* (華新水泥集團職工醫院). From June 1987 to June 2000, she worked as a supervisor at the pharmaceutical department of the same company. She has been the general manager of Zhongzhi Chain Pharmacies since June 2003. She is responsible for the overall management of Zhongzhi Chain Pharmacies.

Mr. Li Wu Yi (李武毅), aged 43, joined our Group on 12 July 2010 as the general manager of Zhongshan Zeus Pharmaceutical Manufacturing Limited. In January 2003, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部). In January 2010, Mr. Li obtained a Bachelor degree of Science in pharmacy awarded by the China Pharmaceutical University* (中國藥科大學).

Prior to joining our Group, from July 1995 to September 1997, Mr. Li worked as the laboratory supervisor at Guangxi Nanning Wan Shi Da Pharmaceutical Factory* (廣西南寧萬士達製藥廠). From April 1999 to April 2002, he worked as the qualitative analyst at Guangzhou Nan Xin Pharmaceutical Company Limited* (廣州南新製藥有限公司). From February 2002 to September 2006, he worked as the qualitative manager at Honeson Pharmaceutical. From October 2006 to June 2010, he worked as production manager at Dupont China Group Company Limited* (杜邦中國集團有限公司).

From July 2010 to March 2011, he worked as the general manager of Zhongshan Zeus Pharmaceutical Manufacturing Limited. From April 2011 to March 2012, he worked as an assistant general manager of Zhongzhi Pharmaceutical. From July 2012 to August 2013, he worked as the production supervisor of Dongguan Jin Mei Ji Pharmaceutical Company Limited* (東莞市金美濟藥業有限公司). He has been the general manger of Zhongzhi Herb Pieces since 2 September 2013. He is responsible for the overall management of Zhongzhi Herb Pieces.

Mr. Chen Jiong (陳炯), aged 41, joined our Group on 31 August 2007 as the production manager of Honeson Pharmaceutical. In July 1997, Mr. Chen obtained a Bachelor degree of Science in pharmacy awarded by the Guangdong Pharmaceutical University* (廣東藥學院). In February 2001, Mr. Chen became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from July 1997 to November 2001, Mr. Chen served as the production worker of Guangzhou Chen Li Ji Pharmaceutical Factory* (廣州陳李濟藥廠) responsible for the operation of the production line and maintaining the GMP production standard.

From January 2004 to December 2007, he worked as the manager of the production department of Honeson Pharmaceutical. From January 2008 to June 2008, he was the production supervisor of the same department. From July 2008 to December 2009, he worked as the assistant to the general manager of Honeson Pharmaceutical and was promoted to general manager in January 2010. Mr. Chen is now responsible for the overall management of Honeson Pharmaceutical.

Mr. Tang Lin (唐琳), aged 51, joined our Group on 31 August 2007 as the head of the technical development department of Honeson Pharmaceutical. In June 1985, Mr. Tang obtained a Bachelor degree of Science in Chinese Medicine awarded by the Hunan College of Chinese Medicine* (湖南中醫學院), the predecessor institution of the Hunan University of Chinese Medicine* (湖南中醫藥大學). In September 1996, he became a licensed pharmacist as approved by the Ministry of Personnel of the PRC* (中華人民共和國人事部).

Prior to joining our Group, from August 1985 to May 1987, Mr. Tang worked as a pharmacist at Fuchuan Yaozu Autonomous Region People's Hospital* (富川瑤族自治縣人民醫院). From May 1987 to October 1994, he worked as an assistant factory manager of Guangxi Province Wuzhou Third Medicinal Factory* (廣西梧州地區第三製藥廠). From December 1997 to December 2000, he worked as a deputy head of the production department of Europharm Laboratories Co., Ltd.* (廣州歐化藥業有限公司). From March 2001 to October 2001, he worked as the head of the production department of Guangdong Jiangmen Ming Sheng Medicine Manufacturing Limited* (廣東江門名盛製藥有限公司). From November 2001 to December 2009, Mr. Tang worked as the head of technical development of Honeson Pharmaceutical. From January 2010 to December 2013, he worked as the general manager of the technical department of Zhongzhi Pharmaceutical. Since January 2010 and January 2014, he has been the chief engineer of Honeson Pharmaceutical and the head of the technical department of Zhongzhi Pharmaceutical respectively. Mr. Tang is also responsible for reviewing the quality control procedures performed by our quality control team.

None of our senior management had any directorships in any publicly listed company over the past three years and none of them has any relationship with the other senior management, the Directors, substantial shareholder or controlling shareholder of our Company.

COMPANY SECRETARY

Ms. Chow Fung Ling (周鳳玲), aged 47, the company secretary of our Group. She joined our Group on 9 March 2015 and is responsible for our Group's secretarial works. Ms. Chow obtained a Professional Diploma in Company Secretaryship and Administration from the Hong Kong Polytechnic University in November 1990. She was admitted as an associate of The Institute of Chartered Secretaries and Administrators in January 1994 and an associate of The Hong Kong Institute of Company Secretaries in August 1994. She obtained the Bachelor of Laws from the University of London in August 2002.

Ms. Chow has over 21 years of experience working in the fields including corporate secretarial services, corporate governance and in-house legal services. From April 1991 to May 1993, Ms. Chow worked as a trainee and semi-senior at Coopers & Lybrand. From June 1995 to May 1998, she worked as an assistant manager and a senior assistant manager at Insinger Secretaries (HK) Limited. From September 1998 to May 1999, she worked as an assistant company secretary at the company secretarial department of Integrated Display Technology Ltd.. From January 2000 to November 2000, she worked as an assistant company secretary at Guangnan (Holdings) Limited (Stock Code: 1203). From November 2000 to July 2013, she worked as the company secretary at Sun Innovation Holdings Limited, which presently named as Digital Domain Holdings Limited (Stock Code: 547). Since April 2014, Ms. Chow has been a part-time company secretary of S.I. Management Limited.

CORPORATE GOVERNANCE

We have put in place our corporate governance structure with a view to safeguarding the interests of our Shareholders. Our Board, which includes three independent non-executive Directors out of a total of seven Directors, is responsible for setting strategic, management and financial objectives and ensuring that the interests of our Shareholders, including those of minority Shareholders are protected. To this end, our Board has established an audit committee, a remuneration committee and a nomination committee.

AUDIT COMMITTEE

An audit committee was established by our Board on 8 June 2015 with written terms of reference in compliance with Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The members of the audit committee are Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han, all being independent non-executive Directors. Mr. Ng Kwun Wan is the chairman of the audit committee. The primary duties of the audit committee are, among others, to make recommendations to the Board on the appointment and removal of the external auditor, to review the financial statements and related materials and provide advice in respect of the financial reporting process, and to oversee the internal control procedures of our Group.

REMUNERATION COMMITTEE

A remuneration committee was established by our Board on 8 June 2015 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The members of the remuneration committee are Mr. Wong Kam Wah, Mr. Lai, Ms. Mou, Mr. Ng Kwun Wan and Mr. Zhou Dai Han. Mr. Wong Kam Wah is the chairman of the remuneration committee. The primary duties of the remuneration committee are mainly to make recommendations to the Board on the overall remuneration policy and structure relating to the Directors and senior management of our Group, to review and evaluate their performance in order to make recommendations on the remuneration package of each of the Directors and senior management personnel as well as other employee benefit arrangements.

NOMINATION COMMITTEE

We established a nomination committee on 8 June 2015 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The nomination committee comprises Mr. Wong Kam Wah, Mr. Lai, Ms. Mou, Mr. Ng Kwun Wan and Mr. Zhou Dai Han. Mr. Wong Kam Wah is the chairman of the nomination committee. The nomination committee is mainly responsible for making recommendations to the Board on the appointment of Directors and the handling of the Board succession.

MANAGEMENT PRESENCE

According to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong. Currently, most of our executive Directors ordinarily reside in the PRC. Since our main business operations are in the PRC, we do not and, for the foreseeable future, will not have sufficient management presence in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 8.12 of the Listing Rules, subject to the conditions that, among others, we maintain the following arrangements to maintain effective communication between us and the Stock Exchange:

(a) We have appointed two authorised representatives pursuant to Rules 2.11 and 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange. The authorised representatives are Ms. Mou and Ms. Chow Fung Ling. Ms. Mou is an executive Director and Ms. Chow Fung Ling is our Company Secretary. Each of the authorised representatives will be able to meet with the Stock Exchange within a reasonable period upon request, if required. Our authorised representatives will be readily contactable by telephone, facsimile and email, and is authorised to communicate on behalf of our Company with the Stock Exchange.

(b) The authorised representatives have means of contacting our Directors promptly at all times and as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication among the Stock Exchange, the authorised representatives, our Directors and our Company, we have implemented a policy whereby: (i) each Director is to provide his/her office phone number, facsimile number and email address to the authorised representatives and the Stock Exchange; and (ii) in the event that a Director expects to travel or be out of the office, he/she is to provide the phone number of the place of his/her accommodation to the authorised representatives. Further, for convenience of communication, each Director has provided his/her means of contact to the Stock Exchange.

(c) We have, in accordance with Rule 3A.19 of the Listing Rules, appointed Guosen Securities (HK) Capital Company Limited as our compliance advisor, who will, among others, act as an additional channel of communication with the Stock Exchange.

(d) All of our Directors who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange in Hong Kong, within a reasonable period, upon the request of the Stock Exchange.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

Remuneration packages of our Directors and senior management are generally structured with reference to market terms and individual merits. Salaries are normally reviewed and discretionary bonuses are paid on annual basis based on our results, individual performance and other relevant factors.

The aggregate emoluments and benefits paid by us to our Directors and senior management during each of the three years ended 31 December 2014 were approximately RMB1.4 million, RMB0.2 million and RMB1 million respectively.

The aggregate amount of remuneration (including fees, salaries, allowances and benefits in kind and contributions to pension scheme) which were paid by us to our five highest paid individuals, including our Directors, for each of the three years ended 31 December 2014 were approximately RMB4.8 million, RMB1 million and RMB1.6 million respectively.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period by us or any of our subsidiaries to our Directors and senior management.

Going forward, our remuneration committee will review and determine the remuneration and compensation of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and senior management and performance of our Group.

SHARE OPTION SCHEME

The purpose of the Share Option Scheme is to provide us with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to participants and potential participants comprising of, among others, employees and Directors (including independent non-executive Directors) of any member of our Group. For further details, please refer to the paragraph headed "Share Option Scheme" in Appendix V headed "Statutory and General Information" to this [REDACTED].

EMPLOYEES

As at the Latest Practicable Date, we had 2,256 full-time employees who are located in the PRC. For each of the three years ended 31 December 2014, our total staff costs including directors' remuneration were approximately RMB83.7 million, RMB115.3 million and RMB121.2 million respectively. For a breakdown of our employees by function as at the Latest Practicable Date, please refer to the paragraph headed "Business — Employees" in this [REDACTED]. The relationship and cooperation between our management and employees has been good and is expected to remain amicable in the future.

Our employees may be entitled to participate in the Share Option Scheme, details of which are set out in the paragraph headed "Share Option Scheme" in Appendix V headed "Statutory and General Information" to this [REDACTED].

COMPLIANCE ADVISOR

We have appointed Guosen Securities (HK) Capital Company Limited as our compliance advisor upon [REDACTED] in compliance with Rule 3A.19 of the Listing Rules.

An agreement has been entered into with the compliance advisor, the material terms of which we expect to be as follows:

(a) the term of appointment of the compliance advisor will commence on the date of [REDACTED] and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of publication of our financial results for the first full financial year after the [REDACTED], unless terminated earlier in accordance with the terms of the compliance advisor's agreement;

(b) the compliance advisor shall provide us with such advisory services as are required to be provided by a compliance advisor pursuant to Chapter 3A of the Listing Rules and advise us in the following circumstances:

  (i) before the publication of any regulatory announcement, circular or financial report;

  (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including but not limited to share issues and share repurchases;

  (iii) where our Company proposes to use the proceeds of the [REDACTED] in a manner different from that detailed in this [REDACTED] or where its business activities, developments or results deviate from any forecast, estimate, or other information in this [REDACTED]; and

  (iv) where the Stock Exchange makes an inquiry with us regarding unusual movements in the price or trading volume of the shares of our Company;

(c) the compliance advisor will, in a timely manner, inform us of any amendment or supplement to the Listing Rules that are announced by the Stock Exchange. The compliance advisor will also inform us of any amendment or supplement to applicable laws and guidelines;

(d) the compliance advisor will act as our additional channel of communication with the Stock Exchange where our authorised representatives are expected to be frequently out of Hong Kong;

(e) the appointment of the compliance advisor may be terminated if the compliance advisor's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within 30 days) over fees payable to the compliance advisor as permitted by Rule 3A.26 of the Listing Rules. The compliance advisor will have the right to terminate its appointment by giving not less than 14 days' notice to us or if we commit a material breach of the agreement.

OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Capitalisation Issue and the [REDACTED], Mr. Lai will through Crystal Talent hold approximately [REDACTED] and Mrs. Lai will through Cheer Lik hold approximately [REDACTED] of our Company's entire issued share capital (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme). As Mrs. Lai is deemed to be interested in the shares of Crystal Talent under the SFO, Mr. Lai, Crystal Talent, Mrs. Lai and Cheer Lik are Controlling Shareholders who will together hold approximately [REDACTED] of our Company's entire issued share capital immediately after the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme).

Our Controlling Shareholders have confirmed that none of them and their respective associates is interested in any business which competes or is likely to compete, directly or indirectly with the business of our Group.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

The Directors consider that our Group is capable of carrying on its business independently from the Controlling Shareholders and their associates after [REDACTED] for the following reasons:

Management independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises four executive Directors and three independent non-executive Directors. Although Mr. Lai and Mrs. Lai who are also the sole director of Crystal Talent and Cheer Lik respectively hold directorships in our Company, we consider that our Board and senior management will function independently from our Controlling Shareholders because:

(a) each Director is aware of his/her fiduciary duties as a Director which require, among others, that he or she acts for the benefit and in the best interest of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interests;

(b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum. Our Group has also adopted certain corporate governance measures for conflict situation, details of which are set out in the paragraph headed "Corporate governance measures" in this section; and

(c) all our senior management members are independent from our Controlling Shareholders. They have substantial experience in the industry we are engaged in and have served our Group for a period of time during which they have demonstrated their capability of discharging their duties independently from our Controlling Shareholders.

Operational independence

Our organisational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate the effective operation of our business.

Based on the above, our Directors are satisfied that we have been operating independently from the Controlling Shareholders during the Track Record Period and will continue to operate independently.

Financial independence

We have an independent financial system and make financial decisions according to our own business needs. As of the Latest Practicable Date, (i) we did not have any outstanding loans or borrowings from any of our Controlling Shareholders or any of their respective associates, save and except the actual amount of investment that Mr. Lai made to Zhongzhi Herb Pieces which shall be returned to Mr. Lai after Zhongzhi Pharmaceutical has exercised the option to purchase the equity interests in Zhongzhi Herb Pieces under the Call Option Agreement (for details please refer to the paragraph headed "Contractual Arrangements — Operation of the Contractual Arrangements — Call Option Agreement" in this [REDACTED]); and (ii) there was no bank borrowings for which any of the Controlling Shareholders has provided personal guarantee. Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the [REDACTED] as we expect that our working capital will be funded by our operating income and bank borrowings.

NON-COMPETITION DEED

In order to avoid any future competition between our Group and the Controlling Shareholders, each of the Controlling Shareholders has under the Non-competition Deed undertaken and covenanted with our Company (for itself and as trustee for its subsidiaries) that for so long as he/she/it and/or his/her/its associates, directly or indirectly, whether individually or taken together, remain a Controlling Shareholder:

(i) he/she/it will not, and will procure his/her/its associates not to (other than through our Group or in respect of each Controlling Shareholder (together with his/her/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, director, partner, agent, employee or otherwise and whether for profit, reward or otherwise) in any

business which is or may be in competition with the business carried on by our Group from time to time (the "**Restricted Activity**"), except where our Company's approval as mentioned in the paragraph below is obtained.

The Controlling Shareholders and their respective associates are entitled to engage or have an interest in any Restricted Activity if after offering the New Business Opportunities to our Company pursuant to (ii) below, our Company has confirmed in writing (the"**Approval Notice**") that none of our Group members wishes to be engaged or interested in the relevant Restricted Activity and it has approved the relevant Controlling Shareholders and their respective associates to engage or have any interest in the Restricted Activity. When New Business Opportunities are referred to the Company, the independent non-executive Directors will consider such opportunity on various aspects including viability and profitability. Any Director who is interested in the relevant Restricted Activity shall not vote on relevant resolutions approving the Approval Notice;

(ii) if any of the Controlling Shareholder and/or his/her/its associates decide to invest, be engaged, or participate in any Restricted Activity, whether directly or indirectly, in compliance with the Non-competition Deed, he/she/it will and/or will procure his/her/its associates (other than members of our Group) to disclose the terms of such investment, engagement or participation to our Company and the Directors as soon as practicable and use his/her/its best endeavors to procure that such investment, engagement or participation (the "**New Business Opportunities**") is offered to our Company on terms no less favorable than the terms on which such investment, engagement or participation is offered to him/her/it and/or his/her/its associates;

(iii) he/she/it will not, and will procure his/her/its associates not to, directly or indirectly, solicit, interfere with or entice away from any member of our Group, any natural person, legal entity, enterprise or otherwise who, to any of our Controlling Shareholder's knowledge, as at the date of the Non-competition Deed, is or has been or will after the date of the Non-competition Deed be, a customer, supplier, distributor, sales or management, technical staff or an employee (of managerial grade or above) of any member of our Group; and

(iv) he/she/it will not, and will procure his/her/its associates not to, exploit his/her/its knowledge or information obtained from our Group to compete, directly or indirectly, with the Restricted Activity.

The Non-competition Deed and the rights and obligations thereunder are conditional and will take effect immediately upon [REDACTED].

The obligations of a Controlling Shareholder under the Non-competition Deed will remain in effect until:

(a) the date on which the Shares cease to be listed on the Stock Exchange; or

(b) the Controlling Shareholder and his/her/its associates, individually and/or collectively, cease to be deemed as a controlling shareholder of our Company (within the meaning defined in the Listing Rules from time to time); or

(c) the Controlling Shareholder and his/her/its associates, individually and/or collectively beneficially own or are interested in the entire issued share capital of our Company,

whichever occurs first.

Nothing in the Non-competition Deed shall prevent the Controlling Shareholders or any of their associates from carrying on any business whatsoever other than the Restricted Activity.

CORPORATE GOVERNANCE MEASURES

The following corporate governance measures will be adopted to monitor the compliance of the Non-competition Deed:

(a) Our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Non-competition Deed by the Controlling Shareholders and their respective associates on their existing or future competing businesses.

(b) The Controlling Shareholders shall promptly provide all information necessary for the annual review by our Company's independent non-executive Directors and the enforcement of the Non-competition Deed and provide to our Company a written confirmation relating to the compliance of the Non-competition Deed and make an annual declaration on compliance with the Non-competition Deed in the annual report of our Company.

(c) Our Company shall disclose decisions on matters reviewed by its independent non-executive Directors relating to the compliance and enforcement of the undertakings provided by the Controlling Shareholders either through the corporate governance report as set out in the annual report of our Company, and/or by way of announcements to the public.

(d) Any New Business Opportunities under the Non-competition Deed and all other matters determined by the Board as having a potential conflict of interest with our Controlling Shareholders will be referred to the independent non-executive Directors for discussion and decision. When necessary, such independent non-executive Directors will engage an independent financial advisor to advise them on the relevant matters. In the event any New Business Opportunities presented by or otherwise arising in connection with any of our Controlling Shareholders are turned down by our Group according to the Non-competition Deed, our Company will disclose the decision, as well as the basis for such decision in the annual report or interim report of our Company. The annual report of our Company will include the views and decisions, with bases, of the independent non-executive Directors on whether to take up any New Business Opportunities under the Non-competition Deed or other matters having a potential conflict of interest with our Controlling Shareholders that have been referred to the independent non-executive Directors.

(e) Further, if a Controlling Shareholder or a Director has a conflict of interest in a matter to be considered, he/she/it shall act in accordance with the requirements of the Listing Rules, regarding voting on such matter.

(f) The compliance advisor of our Company shall provide our Company with professional advice on compliance of continuing obligations under the Listing Rules in accordance with the provisions of the compliance advisor agreement and the requirements of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme), the following persons/entities will have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

Name	Beneficial Interest	Interest in a controlled corporation	Family interest	Total interest	Approximate percentage of issued share capital of our Company upon [REDACTED]
	Number of Shares	*Number of Shares*	*Number of Shares*	*Number of Shares*	
Crystal Talent *(Note 1)*	[REDACTED]	—	—	[REDACTED]	[REDACTED]
Mr. Lai	—	[REDACTED] *(Note 2)*	[REDACTED] *(Note 3)*	[REDACTED]	[REDACTED]
Mrs. Lai	—	[REDACTED] *(Note 4)*	[REDACTED] *(Note 3)*	[REDACTED]	[REDACTED]
Cheer Lik *(Note 5)*	[REDACTED]	—	—	[REDACTED]	[REDACTED]

Note 1: As Crystal Talent is 100% beneficially owned by Mr. Lai and regarded as a Controlling Shareholder, Crystal Talent is deemed to be interested in a total of [REDACTED] Shares, which represent [REDACTED] interest of our Company upon [REDACTED].

Note 2: Crystal Talent will be legally interested in [REDACTED] Shares upon [REDACTED]. As Crystal Talent is 100% beneficially owned by Mr. Lai, Mr. Lai is deemed to be interested in the Shares held by Crystal Talent under the SFO.

Note 3: Mr. Lai is the spouse of Mrs. Lai. Accordingly, Mr. Lai is deemed to be interested in the Shares in which Mrs. Lai has interest under the SFO and Mrs. Lai is deemed to be interested in the Shares in which Mr. Lai has interest under the SFO.

Note 4: Cheer Lik will be legally interested in [REDACTED] Shares upon [REDACTED]. As Cheer Lik is 100% beneficially owned by Mrs. Lai, Mrs. Lai is deemed to be interested in the Shares held by Cheer Lik under the SFO.

Note 5: As Cheer Lik is 100% beneficially owned by Mrs. Lai and regarded as a Controlling Shareholder, Cheer Lik is deemed to be interested in a total of [REDACTED] Shares, which represent [REDACTED] interest of our Company upon [REDACTED].

SHARE CAPITAL

The following table is prepared on the basis that the Capitalisation Issue and the [REDACTED] have become unconditional. This table, however, takes no account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme and of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to the Directors as referred to below.

Authorised share capital:

1,560,000,000	Shares of HK$0.01 each	HK$15,600,000

Shares in issue or to be issued, fully paid or credited as fully paid:

10,000	Share in issue	HK$100
[REDACTED]	Shares to be issued under the Capitalisation Issue(*Note*)	HK$[REDACTED]
[REDACTED]	Shares to be issued under the [REDACTED](*Note*)	HK$[REDACTED]

Total:

[REDACTED]	Shares	HK$[REDACTED]

Note: Pursuant to the written resolutions of the Shareholders passed on 8 June 2015, conditional upon the share premium account of our Company being credited as a result of the [REDACTED], the Directors were authorised to capitalise the amount of HK$[REDACTED] from the amount standing to the credit of the share premium account of our Company and to apply such amount to pay up in full at par [REDACTED] Shares, [REDACTED] Shares, [REDACTED] Shares, [REDACTED] Shares and [REDACTED] Shares for allotment and issue to Crystal Talent, Cheer Lik, Advance Keypath Global Investments Limited, Metro Joy International Limited and Aces Chess Global Limited respectively.

MINIMUM PUBLIC FLOAT

The minimum level of public float to be maintained by our Company at all times after [REDACTED] under the Listing Rules is 25% of its share capital in issue from time to time.

RANKING

The [REDACTED] will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned herein, and will qualify for all dividends or other distributions declared, made or paid after the date of this [REDACTED], save for entitlements under the Capitalisation Issue.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principal terms are summarised in the paragraph headed "Share Option Scheme" in Appendix V headed "Statutory and General Information" to this [REDACTED].

GENERAL MANDATE

Our Directors have been granted a general unconditional mandate to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares upon exercise of any subscription rights attached to any warrants or convertible securities or pursuant to the exercise of any options which might be granted under the Share Option Scheme or any other option scheme(s) or other similar arrangements or under the [REDACTED] or any scrip dividends in accordance with the Articles or a specific authority granted by the Shareholders, Shares or securities or options convertible into Shares and to make and grant offers and agreements which would or might require Shares to be allotted with an aggregate nominal value not exceeding the sum of:

- 20% of the aggregate nominal value of our share capital in issue immediately upon completion of the Capitalisation Issue and the [REDACTED] (excluding Shares which may be issued under the [REDACTED] and pursuant to the exercise of options under the Share Option Scheme); and

- the aggregate nominal amount of Shares repurchased under the authority granted by us to our Directors pursuant to the Repurchase Mandate referred to below (if any).

This general mandate will remain in effect until:

- the conclusion of our next annual general meeting;

- the expiration of the period within which our next annual general meeting is required by the memorandum of association and the Articles or any applicable law to be held; or

- the revocation or variation by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the paragraph headed "Further Information about our Company — Written resolutions of the Shareholders passed on 8 June 2015" in Appendix V headed "Statutory and General Information" to this [REDACTED].

REPURCHASE MANDATE

Our Directors have been granted a general unconditional mandate to exercise all our powers to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, Shares with an aggregate nominal value not exceeding [REDACTED] of the aggregate nominal amount of our share capital in issue immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be allotted and issued under the [REDACTED] and pursuant to the exercise of any options that may be granted under the Share Option Scheme).

The general mandate to repurchase Shares will remain in effect until:

- the conclusion of our next annual general meeting;
- the expiration of the period within which our next annual general meeting is required by the memorandum of association and the Articles or any applicable law to be held; or
- the revocation or variation by an ordinary resolution of our Shareholders in general meeting.

whichever is the earliest.

For further details of the Repurchase Mandate, please refer to the paragraph headed "Further Information about our Company — Written resolutions of the Shareholders passed on 8 June 2015" in Appendix V headed "Statutory and General Information" to this [REDACTED].

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles of Association. For details, please refer to Appendix IV headed "Summary of the Constitution of our Company and Cayman Islands Company Law" to this [REDACTED].

CORNERSTONE INVESTOR

[REDACTED]

CORNERSTONE INVESTOR

[REDACTED]

CORNERSTONE INVESTOR

[REDACTED]

*You should read this section in conjunction with our combined financial information including the notes thereto, as set forth in the Accountants' Report. The Accountants' Report has been prepared on the basis set out in Appendix I to this [REDACTED] and in accordance with our accounting policies that are in conformity with International Financial Reporting Standards ("***IFRS***").*

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in the "Risk Factors" section in this [REDACTED].

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are a pharmaceutical company based in Zhongshan. Our business operations can broadly be divided into two segments, namely, (i) pharmaceutical manufacturing; and (ii) operation of chain pharmacies.

- Pharmaceutical manufacturing

  We are engaged in the research and development, manufacturing and sale of (i) Chinese patent medicines; and (ii) decoction pieces (consisting of traditional decoction pieces and modern decoction pieces) under our brands in the PRC. Our core brands include "Zeus (中智)", "Liumian* (六棉牌)" and "Caojinghua* (草晶華)". For the manufacture of our own-branded products, we have two GMP certified production plants with an aggregate gross floor area of approximately 46,700 sq.m. located in Zhongshan. Our own-branded products are sold on a wholesale basis to distributors and independent chain pharmacies in the PRC, and also through our self-operated chain pharmacies. For each of the three years ended 31 December 2014, the revenue from our pharmaceutical manufacturing segment was RMB172.2 million, RMB207.3 million and RMB294.8 million, respectively.

- Operation of chain pharmacies

  We have been operating chain pharmacies in Zhongshan under our brand "Zeus (中智)" for the sale of pharmaceutical products since 2001. As at the Latest Practicable Date, we have 201 self-operated chain pharmacies in Zhongshan. For each of the three years ended 31 December 2014, the revenue from our operation of chain pharmacies was RMB237.8 million, RMB275.5 million and RMB300.7 million, respectively. According to the Ipsos Report, we are the largest self-operated pharmaceutical chain in Zhongshan in terms of the number of pharmacies and revenue for three consecutive years from 2012 to 2014. Apart from our own-branded products manufactured by us, we also sell a variety of non-own branded products

comprising (i) Chinese patent medicines; (ii) Western medicines; (iii) medical devices; and (iv) healthcare products (such as vitamin, mineral supplements and protein powder), which we sourced from independent suppliers (including pharmaceutical wholesalers and distributors).

Driven by the rapidly increasing market demand on pharmaceutical products, we have enjoyed growth in both the revenue and net profit during the Track Record Period. For each of the three years ended 31 December 2014, we recorded total revenue of approximately RMB410.1 million, RMB482.8 million and RMB595.6 million, respectively and profit attributable to our Company's equity holders of approximately RMB17.3 million, RMB37.6 million and RMB86.7 million, respectively.

For further information about our business and operations, please refer to the "Business" section in this [REDACTED].

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are subject to the influence of numerous factors, the principal of which are set out below:

Growth of the pharmaceutical markets in the PRC

PRC is one of the world's largest and fastest growing pharmaceutical markets, from which we derived all of our revenue for each of the three years ended 31 December 2014. Our revenue for the respective periods amounted to approximately RMB410.1 million, RMB482.8 million and RMB595.6 million, representing a CAGR of approximately 20.5%. According to the Ipsos Report, total retail sales value of pharmaceutical products in the PRC grew at a CAGR of approximately 23.9% from 2009 to 2013. It is estimated that total retail sales value of the pharmaceutical products in the PRC will further grow at a CAGR of approximately 22.2% from 2014 to 2018, respectively.

The rapid growth of the pharmaceutical markets in the PRC has been driven by a number of socio-economic factors, such as (i) the rapid growth of GDP; (ii) the increasing disposable income and healthcare spending; and (iii) the aging population. If any of these factors changes unexpectedly or unfavorably, our business, financial condition and results of operations may be adversely affected.

Our ability to control the cost of raw materials

Our profitability is affected by our ability to procure raw materials at commercially reasonable prices for the manufacturing of our own-branded products. Our raw materials mainly include Chinese herbs, packaging materials and other consumables. For each of the three years ended 31 December 2014, raw material costs accounted for approximately 75.6%, 73.2% and 73.1% of the cost of sales of our pharmaceutical manufacturing, and approximately 29.2%, 29.6% and 32.4% of our total cost of sales, respectively. Our ability to control our raw material costs significantly affects our profitability. During the Track Record Period, the raw material price fluctuations have

not had a material impact on our gross profit margins. However, should there be any increase in raw material costs which cannot be passed on to our customers due to government price controls or other reasons, our Group's profitability will be adversely affected.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in raw material costs on our cost of sales, gross profit, gross profit margin and net profit during the Track Record Period. Fluctuations are assumed to be 10%, 20% and 30% for each of the three years ended 31 December 2014, respectively, which correspond to the range of historical fluctuations of our raw material costs during the Track Record Period. Our raw material costs increased by approximately 11.3% from approximately RMB64.7 million for the year ended 31 December 2012 to approximately RMB72 million for the year ended 31 December 2013, and further increased by approximately 23.8% to approximately RMB89.1 million for the year ended 31 December 2014.

	RMB'000, except percentages		
Hypothetical fluctuation in cost of raw materials	+10%	+20%	+30%
Impact on certain combined income statement items for the year ended 31 December 2012			
Change in cost of sales	+6,469	+12,937	+19,406
Change in gross profit	–6,469	–12,937	–19,406
Change in gross profit margin	–1.6%	–3.2%	–4.7%
Change in net profit	–4,761	–9,522	–14,283
Impact on certain combined income statement items for the year ended 31 December 2013			
Change in cost of sales	+7,199	+14,398	+21,596
Change in gross profit	–7,199	–14,398	–21,596
Change in gross profit margin	–1.5%	–3.0%	–4.5%
Change in net profit	–5,788	–11,576	–17,364
Impact on certain combined income statement items for the year ended 31 December 2014			
Change in cost of sales	+8,906	+17,812	+26,718
Change in gross profit	–8,906	–17,812	–26,718
Change in gross profit margin	–1.5%	–3.0%	–4.5%
Change in net profit	–6,760	–13,519	–20,279

Distribution network

Our sales volume is directly correlated to the level of our market penetration, which in turn is affected by the size of our distribution network. As at 31 December 2014, our extensive distribution network comprised 1,111 distributors (comprising upper-level distributors, lower-level distributors and non-contractual distributors) and 381 independent chain pharmacies for the sale of our own-branded products to 30 provinces, municipalities and autonomous regions in the PRC. Our Directors believe that our extensive distribution network has enabled us to achieve rapid market expansion and wide geographical coverage. We will continue to expand our distribution and marketing network, with a view to further increase our market share and deepen market penetration.

Launch of new products

Our ability to develop and launch new products is critical to our future growth. In 2011, we launched our modern decoction pieces which have received positive market response. For each of the three years ended 31 December 2014, revenue from the sale of modern decoction pieces amounted to RMB22.4 million, RMB65.5 million and RMB156.5 million, respectively, representing a CAGR of approximately 164.3%.

To ensure that our product portfolio can meet the changing market demand, we will continue enhancing our strong research and development capabilities and developing a pipeline of new products that supports sustainable growth and helps us meet our ongoing and future targets of profitability.

Up to the Latest Practicable Date, we have obtained approval from the relevant government authorities for the production of a total of 60 Chinese patent medicines, 196 types of traditional decoction pieces and 62 types of modern decoction pieces, of which 35, 136 and 22 types have been launched in the market, respectively. We will launch other registered or approved products in the market at the time when our Directors consider suitable, depending on the prevailing consumer preferences and market demands.

Product offering

Our turnover and profitability are affected by our product offering. As at the Latest Practicable Date, we offered over 5,000 types of products for sale in our self-operated chain pharmacies, including 193 types of our own-branded products and other products sourced from independent suppliers, such as Chinese patent medicines, Western medicines, medical devices and healthcare products. This diversified product portfolio enables us to cater for the changing needs of consumers of different ages and consuming power.

We will continue to evaluate and enrich our product portfolio on a regular basis with a focus on products with higher gross profit margin and greater market demand to increase our overall profitability.

Taxation

For each of the three years ended 31 December 2014, Zhongzhi Herb Pieces and Honeson Pharmaceutical were granted the status of High and New Technology Enterprise* (高新技術企業) and, according to the applicable PRC laws and regulations, were entitled to the reduced EIT rate of 15%. Under the relevant PRC laws and regulations, the 15% reduced EIT rate is subject to review and approval by the tax authorities every three years. The current status of Zhongzhi Herb Pieces and Honeson Pharmaceutical as High and New Technology Enterprise and their entitlement to the reduced EIT rate will expire in 2017.

There is no assurance that the PRC policies on preferential tax treatments will not change or that the current preferential tax treatments we enjoy will not be cancelled. If such change and cancellation occur, the resulting increase in our tax liability or reduction in the amount of subsidies we receive would have an adverse effect on our net profits and cash flow. If we were not entitled to the preferential tax treatments during the Track Record Period, we would have been subject to the EIT rate of 25% and our net profit after tax for the respective year would have decreased by RMB2 million, RMB3 million and RMB4.2 million, representing a decline of 0.5%, 0.6% and 0.7% in our net profit margin respectively.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The discussion and analysis of our financial position and results of operations as included in this [REDACTED] is based on the combined financial statements prepared in accordance with the significant accounting policies set out in note 2.4 of the Accountants' Report, which conform with the IFRS.

In the application of our Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ under different assumptions or conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Set forth below are the most critical accounting policies, judgements and estimates used in the preparation of our financial statements:

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:

(i) ***Sale of goods***

Revenue of our pharmaceutical manufacturing is recognised when the goods have been delivered to the customers' premises and the customers have inspected and accepted the goods as well as the related risks and rewards of ownership.

Revenue of our operation of chain pharmacies is recognised when we sell our goods to the customers over the counter.

Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) ***Interest income***

Interest income is recognised on an accrual basis using the effective interest rate method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. We initially recognise loans and receivables at fair value plus transaction costs and subsequently carry them at amortised cost using the effective interest method. At the end of each reporting period, we assess whether there is objective evidence that a financial asset or a group of financial assets is impaired. We derecognise financial assets when the rights to receive cash flow from the assets have expired or have been transferred and we have transferred substantially all risks and rewards of ownership.

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.

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 estimated useful lives of property, plant and equipment used are as follows:

Leasehold improvement	3–10 years
Buildings	20 years
Machinery	3–10 years
Motor vehicles	4–5 years
Office equipment	3–5 years

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each reporting period.

In determining the useful life and residual value of an item of property, plant and equipment, our Group has to 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 the experience of our 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 the end of each reporting period based on changes in circumstances.

MANAGEMENT DISCUSSION AND ANALYSIS

Summary of results of operations

The following table summarises our Group's combined revenue and results for the Track Record Period, details of which are set out in the Accountants' Report. The financial information contained herein and in the Accountants' Report is prepared in accordance with IFRS and is presented as if our current group structure had been in existence throughout the periods indicated.

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Revenue	410,052	482,805	595,565
Cost of sales	(221,365)	(243,430)	(275,290)
Gross profit	188,687	239,375	320,275
Other income and gains	7,370	5,383	6,528
Selling and distribution expenses	(121,904)	(142,326)	(148,747)
Administrative expenses	(35,258)	(38,881)	(50,196)
Other expenses	(11,152)	(15,364)	(12,048)
Finance costs	(4,294)	(1,384)	(1,002)
Profit before tax	23,449	46,803	114,810
Income tax expense	(6,195)	(9,165)	(28,122)
Profit for the year	17,254	37,638	86,688
Attributable to equity holders of our Company	17,254	37,638	86,688

Revenue

(i) *By business segments*

We derive our revenue from two business segments: (i) pharmaceutical manufacturing; and (ii) operation of chain pharmacies. For each of the three years ended 31 December 2014, our total revenue was approximately RMB410.1 million, RMB482.8 million and RMB595.6 million, respectively.

The table below sets forth our revenue by business segment and the percentage of total revenue for each business segment represented during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Pharmaceutical manufacturing	172,240	42.0	207,262	42.9	294,840	49.5
Operation of chain pharmacies	237,812	58.0	275,543	57.1	300,725	50.5
Total	410,052	100.0	482,805	100.0	595,565	100.0

Pharmaceutical manufacturing

For our pharmaceutical manufacturing, we derive revenue from our own-branded products which we manufacture and then sell to distributors and independent chain pharmacies. For each of the three years ended 31 December 2014, revenue from this segment was approximately RMB172.2 million, RMB207.3 million and RMB294.8 million, accounting for approximately 42%, 42.9% and 49.5% of our total revenue, respectively.

Our own-branded products can be categorised into (i) Chinese patent medicines; and (ii) decoction pieces, which include traditional and modern decoction pieces. The table below sets forth our revenue from our pharmaceutical manufacturing by product category and the percentage of revenue from this segment for each product category represented during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Chinese patent medicines	157,289	91.3	158,575	76.5	159,614	54.2
Decoction pieces						
— Traditional decoction pieces	2,463	1.4	2,326	1.1	3,325	1.1
— Modern decoction pieces	12,488	7.3	46,361	22.4	131,901	44.7
Total revenue from pharmaceutical manufacturing	172,240	100.0	207,262	100.0	294,840	100.0

For each of three years ended 31 December 2014, revenue from the sale of Chinese patent medicines and traditional decoction pieces remained relatively stable. Our modern decoction pieces were launched in the market in 2011. Satisfactory market response was received and revenue from the sales of modern decoction pieces grew from approximately RMB12.5 million in 2012 to RMB131.9 million in 2014, representing a CAGR of approximately 224.8%.

Operation of chain pharmacies

For our operation of chain pharmacies, we derive revenue from the sale of pharmaceutical products, healthcare products and other miscellaneous items in our self-operated chain pharmacies to retail consumers. For each of the three years ended 31 December 2014, revenue from this segment amounted to approximately RMB237.8 million, RMB275.5 million and RMB300.7 million, accounting for approximately 58%, 57.1% and 50.5% of our total revenue, respectively. As at the respective year-end, we had 198, 195 and 198 self-operated chain pharmacies in Zhongshan.

The products offered for sale in our chain pharmacies include our own-branded products and non-own branded products sourced from independent suppliers (including pharmaceutical wholesalers and distributors). The table below sets forth our revenue from the operation of chain pharmacies by product category and the percentage of revenue from this segment for each product category represented during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
Own-branded products						
Chinese patent medicines	9,482	4.0	8,843	3.2	10,338	3.4
Decoction pieces						
— Traditional decoction pieces	34,904	14.7	38,153	13.9	36,306	12.1
— Modern decoction pieces	9,921	4.2	19,094	6.9	24,625	8.2
	54,307	22.9	66,090	24.0	71,269	23.7
Non-own branded products						
Chinese patent medicines	66,229	27.8	74,191	26.9	83,418	27.8
Western medicines	67,883	28.5	80,299	29.1	85,807	28.5
Healthcare products	25,853	10.9	28,553	10.4	27,955	9.3
Others *(Note)*	23,540	9.9	26,410	9.6	32,276	10.7
	183,505	77.1	209,453	76.0	229,456	76.3
Total revenue from the operation of chain pharmacies	237,812	100.0	275,543	100.0	300,725	100.0

Note: Others mainly include personal care products and medical devices.

(ii) ***By product category***

The table below sets forth our revenue by product category and the percentage of revenue for each product category represented during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Own-branded products	226,547	55.2	273,352	56.6	366,109	61.5
Non-own branded products	183,505	44.8	209,453	43.4	229,456	38.5
Total	410,052	100.0	482,805	100.0	595,565	100.0

Cost of sales, Gross Profit and Gross Profit Margin

(i) *By business segments*

The table below sets forth our cost of sales, gross profit and gross profit margin for our two business segments during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	RMB'000	% of segment revenue	RMB'000	% of segment revenue	RMB'000	% of segment revenue
Pharmaceutical manufacturing						
Revenue	172,240	100.0	207,262	100.0	294,840	100.0
Cost of sales	85,578	49.7	98,317	47.4	121,928	41.4
Gross profit	86,662	50.3	108,945	52.6	172,912	58.6
Operation of chain pharmacies						
Revenue	237,812	100.0	275,543	100.0	300,725	100.0
Cost of sales	135,787	57.1	145,113	52.7	153,362	51.0
Gross profit	102,025	42.9	130,430	47.3	147,363	49.0
Total						
Revenue	410,052	100.0	482,805	100.0	595,565	100.0
Cost of sales	221,365	54.0	243,430	50.4	275,290	46.2
Gross profit	188,687	46.0	239,375	49.6	320,275	53.8

Pharmaceutical manufacturing

Cost of sales of our pharmaceutical manufacturing mainly comprises the cost of raw materials, employee benefit expenses and depreciation of property, plant and equipment. For each of the three years ended 31 December 2014, cost of sales of this segment amounted to approximately RMB85.6 million, RMB98.3 million and RMB121.9 million, respectively.

Our raw materials mainly include Chinese herbs, packaging materials and other consumables. For each of the three years ended 31 December 2014, our cost of raw materials amounted to approximately RMB64.7 million, RMB72 million and RMB89.1 million, representing approximately 75.6%, 73.2% and 73.1% of the total segment cost of sales, respectively. The increase in our cost of raw materials during the Track Record Period was primarily due to the increased production volume driven by the sales growth of our own-branded products.

Our employee benefit expenses increased by approximately 43.1% from approximately RMB11.6 million for the year ended 31 December 2012 to approximately RMB16.6 million for the year ended 31 December 2013, and then further increased by approximately 13.9% to approximately RMB18.9 million for the year ended 31 December 2014. Basic salaries of our staff increased by approximately 19% due to rise in the PRC statutory minimum wage in early 2013 and the general inflation.

For each of the three years ended 31 December 2014, gross profit of this segment was approximately RMB86.7 million, RMB108.9 million and RMB172.9 million, respectively. The gross profit margin of this segment for the same periods was approximately 50.3%, 52.6% and

58.6%, respectively. The increase in gross profit margin of this segment was primarily resulted from the growth in the sales of our modern decoction pieces, which has a significantly higher gross profit margin than our other own-branded products.

Operation of chain pharmacies

Cost of sales of our operation of chain pharmacies represents the cost of our own-branded products and non-own branded products sourced from independent suppliers for resale in our chain pharmacies. For each of the three years ended 31 December 2014, cost of sales of this segment amounted to approximately RMB135.8 million, RMB145.1 million and RMB153.4 million, respectively. The increase in cost of sales of this segment during the Track Record Period was in line with the growth in sales from this segment.

For each of the three years ended 31 December 2014, gross profit of this segment was approximately RMB102 million, RMB130.4 million and RMB147.4 million, respectively. The gross profit margin of this segment for the same periods was approximately 42.9%, 47.3% and 49%, respectively. The increase in gross profit margin of this segment for the respective periods was due to the combined effect of (i) more favourable product pricing offered by some suppliers due to our increased purchase volume; and (ii) the increased sales of our own-branded products, in particular, our modern decoction pieces which have higher gross profit margin than non-own branded products.

For each of the three years ended 31 December 2014, our Group recorded total gross profit of approximately RMB188.7 million, RMB239.4 million and RMB320.3 million, together with a overall gross profit margin of approximately 46%, 49.6% and 53.8%, respectively.

(ii) ***By product category***

The table below sets forth our gross profit and gross profit margin by product category during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Own-branded products						
Chinese patent medicines	81,632	48.9	77,676	46.4	80,574	47.4
Decoction pieces						
— Traditional decoction pieces	20,248	54.2	23,587	58.3	24,440	61.7
— Modern decoction pieces	18,004	80.3	51,268	78.3	121,425	77.6
	119,884	52.9	152,531	55.8	226,439	61.9
Non-own branded products						
Chinese patent medicines	24,067	36.3	29,304	39.5	32,206	38.6
Western medicines	21,711	32.0	28,812	35.9	30,757	35.8
Healthcare products	13,469	52.1	16,852	59.0	16,783	60.0
Others *(Note)*	9,556	40.6	11,876	45.0	14,090	43.7
	68,803	37.5	86,844	41.5	93,836	40.9
Total	188,687	46.0	239,375	49.6	320,275	53.8

Note: Others mainly include personal care products and medical devices.

Our own-branded modern decoction pieces are manufactured by using our patented techniques, which enable us to achieve higher gross profit margin from the sales of our own-branded products as compared with non-own branded products.

Through years of research and development, we have successfully developed the techniques related to the production of modern decoction pieces, which are intended to enhance the functional effectiveness of traditional decoction pieces. These products are sold at a higher price than traditional decoction pieces and we have received satisfactory market response. The gross profit margin of our modern decoction pieces were approximately 80% during the Track Record Period.

(iii) ***By distribution channel***

The table below sets forth our gross profit and gross profit margin by distribution channel during the Track Record Period:

	For the year ended 31 December					
	2012		2013		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Our self-operated chain pharmacies *(Note 1)*	102,025	42.9	130,430	47.3	147,363	49.0
Distributors *(Note 2)*						
— contractual *(Note 3)*	35,996	44.2	38,982	46.1	45,508	50.4
— non-contractual	34,507	56.5	38,647	55.6	31,248	54.7
Independent chain pharmacies *(Note 1)*	16,159	54.2	31,316	58.7	96,156	65.2
Total	188,687	46.0	239,375	49.6	320,275	53.8

Notes:

1. Revenue generated from our self-operated chain pharmacies represented sales of both our own-branded products and non-owned branded products.

2. Revenue generated from distributors and independent chain pharmacies represented sales of our own-branded products.

3. Revenue generated from contractual distributors represented our sales to upper-level distributors as we do not sell directly to lower-level distributors.

We sell our Chinese patent medicines to our contractual and non-contractual distributors. However, the Chinese patent medicines sold to non-contractual distributors generally have forms and/or packaging different from those being sold to contractual distributors and are at a higher selling price. As such, our gross profit margins from the sales to non-contractual distributors for each of the three years ended 31 December 2014 was higher as compared with those of the contractual distributors.

We mainly sell our modern decoction pieces to the independent chain pharmacies outside Zhongshan. For each of the three years ended 31 December 2014, our gross profit and gross profit margin from the sales to independent chain pharmacies were on an increasing trend. This was driven by the increased sales of our modern decoction pieces, which has the highest gross profit margin amongst our own-branded products.

Other income and gains

Other income and gains mainly comprise government grants and interest income. As a reputable pharmaceutical company in Zhongshan, we have been gaining support from the Guangdong provincial government and Zhongshan municipal government for our continuous effort in research and development of pharmaceutical products as well as the expansion of our business operations. The aforesaid government authorities would consider various factors, such as the technical requirements, feasibility and expected economic benefits of our research and development projects. These government grants were in the form of subsidies for our research and development projects, including but not limited to the acquisition of related equipments and software.

Our entitlement to the government grants is subject to the conditions set by the government authorities, which generally require us to complete the relevant projects and submit the completion reports to the government authorities. We recognise government grants at fair value where there is reasonable assurance that the grants have been received and all attaching conditions have been complied with. For each of the three years ended 31 December 2014, our government grants amounted to approximately RMB6 million, RMB3 million and RMB4.1 million, representing approximately 34.7%, 8% and 4.7% of our net profit for the respective years.

The table below shows the breakdown of our other income and gains for the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Government grants	6,049	2,956	4,095
Bank interest income	320	303	366
Interest income from available-for-sale investments	388	364	532
Gain on disposal of property, plant and equipment	34	554	67
Others	579	1,206	1,468
Total	7,370	5,383	6,528

Selling and distribution expenses

Selling and distribution expenses mainly represent staff costs, advertisement and promotional costs and rental expenses of our chain pharmacies. For each of the three years ended 31 December 2014, our selling and distribution expenses amounted to approximately RMB121.9 million, RMB142.3 million and RMB148.7 million, representing approximately 29.7%, 29.5% and 25% of our total revenue, respectively. Our advertisement and promotional costs were on a decreasing trend, as our sales staff provide regular seminars on our products to independent chain pharmacies which directly market our products to consumers. We consider that this is an effective and cost efficient way of marketing and promoting our new products.

The table below shows the breakdown of selling and distribution expenses incurred by us for the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Staff costs	54,079	75,382	79,930
Depreciation and amortisation	4,118	4,234	4,618
Travelling and entertainment expenses	4,892	7,106	9,951
Advertisement and promotional costs	33,152	27,722	23,369
Rental expenses	13,240	15,675	17,059
Transportation expenses	3,317	3,565	3,739
Others	9,106	8,642	10,081
Total	121,904	142,326	148,747

Administrative expenses

Administrative expenses mainly represent salaries and benefits of our administrative and management staff as well as legal and professional fees. Our administrative expenses for each of the three years ended 31 December 2014 were RMB35.3 million, RMB38.9 million and RMB50.2 million, respectively.

The table below shows the breakdown of administrative expenses incurred by us during the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Staff costs	15,860	21,061	22,205
Depreciation and amortisation	4,763	3,346	2,622
Legal and professional fees	872	3,897	10,785
Rental expenses	1,482	1,498	1,592
Travelling and entertainment expenses	2,849	4,607	3,049
[REDACTED] expenses	—	—	[REDACTED]
Share-based payment expenses	5,680	—	—
Others	3,752	4,472	5,644
Total	35,258	38,881	50,196

Other expenses

Other expenses mainly represent research and development expenses, loss on disposal of property, plant and equipment and miscellaneous expenses. Research and development expenses mainly comprise expenditures and costs relating to the development of new products, enhancement of the efficacy of existing products, the improvement of our production methods and other internal research and development programs. For each of the three years ended 31 December 2014, our other expenses were RMB11.2 million, RMB15.4 million and RMB12 million, respectively.

The table below shows the breakdown of other expenses incurred by us during the Track Record Period:

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Research and development expenses	10,750	14,001	11,184
Loss on disposal of property, plant and equipment	325	456	137
Loss on disposal of non-current available-for-sale investment	—	99	—
Others	77	808	727
Total	11,152	15,364	12,048

Finance costs

Finance costs represent interest expenses on bank borrowings. For each of the three years ended 31 December 2014, our finance costs were approximately RMB4.3 million, RMB1.4 million and RMB1 million, respectively. During the Track Record Period, our bank borrowings were on a decreasing trend. Cash generated from our operations has been our major source of finance.

Income tax expenses

During the Track Record Period, all our revenue was derived in the PRC.

Our PRC subsidiaries are subject to EIT rate of 25% on their assessable profits, except for Zhongzhi Herb Pieces and Honeson Pharmaceutical which were granted the status of High and New Technology Enterprise* (高新技術企業). According to the applicable PRC laws and regulations, they were entitled to the reduced EIT rate of 15%.

During the Track Record Period, our income tax expenses amounted to approximately RMB6.2 million, RMB9.2 million and RMB28.1 million, respectively. Our effective income tax rate was approximately 26.4%, 19.6% and 24.5% for each of the three years ended 31 December 2014, respectively. Our effective income tax rate for the year ended 31 December 2012 was higher than the our applicable EIT rates as certain expenses were non-deductible for tax purposes. These expenses mainly included a one-off share-based payment expense of approximately RMB5.7 million, which were not considered as deductible expenses by the PRC tax authorities.

The increase in our effective tax rate for the year ended 31 December 2014 was primarily attributable to the recognition of dividend withholding tax of approximately RMB3 million.

Year ended 31 December 2014 compared with year ended 31 December 2013

Revenue

Our total revenue increased by approximately 23.4% from approximately RMB482.8 million for the year ended 31 December 2013 to approximately RMB595.6 million for the year ended 31 December 2014. Revenue from both of our business segments increased.

Pharmaceutical manufacturing

Segment revenue of our pharmaceutical manufacturing increased by approximately 42.2% from approximately RMB207.3 million for the year ended 31 December 2013 to approximately RMB294.8 million for the year ended 31 December 2014. Our modern decoction pieces had received satisfactory market receptiveness since they were launched in 2011. Revenue from the wholesale of our modern decoction pieces increased by approximately 184.3% from approximately RMB46.4 million for the year ended 31 December 2013 to approximately RMB131.9 million for the year ended 31 December 2014.

Operation of chain pharmacies

Segment revenue of our operation of chain pharmacies increased by approximately 9.1% from approximately RMB275.5 million for the year ended 31 December 2013 to approximately RMB300.7 million for the year ended 31 December 2014. The increase was a result of the organic growth of our chain pharmacies, driven by the increase in the overall market demand on pharmaceutical and healthcare products.

Cost of sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by approximately 13.1% from approximately RMB243.4 million for the year ended 31 December 2013 to approximately RMB275.3 million for the year ended 31 December 2014. Our cost of sales increased with our sales growth.

Our gross profit increased by approximately 33.8% from approximately RMB239.4 million for the year ended 31 December 2013 to RMB320.3 million for the year ended 31 December 2014. Our gross profit margin increased from 49.6% for the year ended 31 December 2013 to 53.8% for the year ended 31 December 2014, primarily resulted from the increase in the wholesale of our modern decoction pieces, which had gross profit margin of approximately 80%. As a percentage to our total revenue, the revenue of our modern decoction pieces increased from 13.6% for the year ended 31 December 2013 to 26.3% for the year ended 31 December 2014.

Other income and gains

Our other income and gains increased by approximately 20.4% from approximately RMB5.4 million for the year ended 31 December 2013 to approximately RMB6.5 million for the year ended 31 December 2014, primarily due to the increase in discretionary government grants received by our Group.

Selling and distribution expenses

Our selling and distribution expenses for the year ended 31 December 2014 amounted to approximately RMB148.7 million, representing approximately 25% of our total revenue for the same year. Our rental expenses increased by approximately 8.9% from approximately RMB15.7 million for the year ended 31 December 2013 to approximately RMB17.1 million for the year ended 31 December 2014, primarily attributed to a net increase of three chain pharmacies and the lease renewal of existing pharmacies. Despite that, as compared with 29.5% for the year ended 31 December 2013, the decrease in our selling and distribution expenses as a percentage to total revenue was mainly resulted from the reduction of our advertisement and promotional costs.

Administrative expenses

Our administrative expenses increased by approximately 29% from approximately RMB38.9 million for the year ended 31 December 2013 to approximately RMB50.2 million for the year ended 31 December 2014. During the year, we have recognised [REDACTED] expenses of approximately RMB[REDACTED] and professional fees of RMB5 million. The professional fees related to the engagement of an independent consultancy firm to provide us market analysis in relation to the market development, sales and distribution channels, local regulations, opportunities and challenges of Chinese pharmaceutical products in Hong Kong, the PRC and certain major cities across the Southeast Asia. The firm provided various services to our Group, including but not limited to conducting feasibility studies on carrying business in relation to Chinese patent medicines in various jurisdictions, provision and maintenance (if required) of relevant databases, recruitment of relevant personnel to explore business opportunities and devising business development plans in these cities. Our Directors will consider the possibility of business expansion into other regions should any opportunities arise.

Other expenses

Our other expenses decreased by approximately 22.1% from approximately RMB15.4 million for the year ended 31 December 2013 to approximately RMB12 million for the year ended 31 December 2014, as our research and development expenses was partially capitalised as property, plant and equipment according to the relevant accounting standard. For the year ended 31 December 2014, we incurred an aggregate amount of approximately RMB18.2 million on our research and development projects, of which the capitalised portion of approximately RMB7 million was related to the set-up of a State-level laboratory for the development of our modern decoction pieces. The remaining was expensed in the profit or loss. Consequently, our research and development expenses decreased by approximately 20% from RMB14 million for the year ended 31 December 2013 to RMB11.2 million for the year ended 31 December 2014.

Finance costs

Our finance costs decreased by approximately 28.6% from approximately RMB1.4 million for the year ended 31 December 2013 to approximately RMB1 million for the year ended 31 December 2014. We had repaid certain of our bank borrowings.

Income tax expense

Our income tax expense increased by approximately 205.4% from approximately RMB9.2 million for the year ended 31 December 2013 to approximately RMB28.1 million for the year ended 31 December 2014 due to the increase in taxable profits and the recognition of dividend withholding tax of approximately RMB3 million.

Profit for the year

As a result of the above factors, our profit for the year increased by approximately 130.6% from approximately RMB37.6 million for the year ended 31 December 2013 to approximately RMB86.7 million for the year ended 31 December 2014. During the year, we adopted an effective control on our selling and distribution expenses in particular, reduced our advertisement and promotional costs and the percentage of our staff costs to total revenue from approximately 17.1% for the year ended 31 December 2013 to approximately 15.1%. As a result, our net profit margin increased from approximately 7.8% for the year ended 31 December 2013 to approximately 14.6% for the year ended 31 December 2014.

Dividends

We declared and paid a dividend of RMB96 million during the year ended 31 December 2014. No dividend was declared and paid during the year ended 31 December 2013.

Year ended 31 December 2013 compared with year ended 31 December 2012

Revenue

Our total revenue increased by approximately 17.7% from approximately RMB410.1 million for the year ended 31 December 2012 to approximately RMB482.8 million for the year ended 31 December 2013. The increase primarily reflected the increase in revenue from both of our business segments.

Pharmaceutical manufacturing

Segment revenue of our pharmaceutical manufacturing increased by approximately 20.4% from approximately RMB172.2 million for the year ended 31 December 2012 to approximately RMB207.3 million for the year ended 31 December 2013. Revenue from the wholesale of our

modern decoction pieces significantly increased by approximately 271.2% from approximately RMB12.5 million for the year ended 31 December 2012 to approximately RMB46.4 million for the year ended 31 December 2013.

Operation of chain pharmacies

Segment revenue of our operation of chain pharmacies increased by approximately 15.9% from approximately RMB237.8 million for the year ended 31 December 2012 to approximately RMB275.5 million for the year ended 31 December 2013. Our increase in sales was mainly resulted from the sales contributed by additional self-operated pharmacies opened in 2012.

Cost of sales, Gross Profit and Gross Profit Margin

Our cost of sales increased by approximately 9.9% from approximately RMB221.4 million for the year ended 31 December 2012 to approximately RMB243.4 million for the year ended 31 December 2013. Our cost of sales increased with our sales growth.

Our gross profit increased by approximately 26.9% from approximately RMB188.7 million for the year ended 31 December 2012 to RMB239.4 million for the year ended 31 December 2013. Our gross profit margin increased from 46% for the year ended 31 December 2012 to 49.6% for the year ended 31 December 2013, primarily due to (i) the increased sales of our modern decoction pieces; (ii) those additional self-operated pharmacies opened in 2012 began to contribute profits; and (iii) more favourable pricing offered by some suppliers of our chain pharmacies segment for our increased purchase volume. As a percentage to our total revenue, the revenue of our modern decoction pieces increased from 5.5% for the year ended 31 December 2012 to 13.6% for the year ended 31 December 2013.

Other income and gains

Our other income and gains decreased by approximately 27% from approximately RMB7.4 million for the year ended 31 December 2012 to approximately RMB5.4 million for the year ended 31 December 2013, as a result of the decrease in discretionary government grants received by our Group.

Selling and distribution expenses

Our selling and distribution expenses for the year ended 31 December 2013 amounted to approximately RMB142.3 million and accounted for approximately 29.5% of our total revenue. Our rental expenses increased by approximately 18.9% from approximately RMB13.2 million for the year ended 31 December 2012 to approximately RMB15.7 million for the year ended 31 December 2013, primarily attributed to the lease renewal of existing pharmacies. As a percentage to total revenue, our selling and distribution expenses for the year ended 31 December 2013 remained stable as compared to 29.7% for the year ended 31 December 2012.

Administrative expenses

We recognised a one-off share-based payment expenses of approximately RMB5.7 million for the year ended 31 December 2012. Without taking into account such expenses, our administrative expenses would have increased by approximately 31.4% from approximately RMB29.6 million for the year ended 31 December 2012 to approximately RMB38.9 million for the year ended 31 December 2013. Staff costs increased by approximately RMB5.2 million as a result of the increase in bonuses paid to our employees.

Other expenses

Our other expenses increased by approximately 37.5% from approximately RMB11.2 million for the year ended 31 December 2012 to approximately RMB15.4 million for the year ended 31 December 2013. During the year, we incurred additional expenditure of approximately RMB3.3 million on our research and development projects, representing an increase of approximately 29.6% as compared with 2012.

Finance costs

Our finance costs decreased by approximately 67.4% from approximately RMB4.3 million for the year ended 31 December 2012 to approximately RMB1.4 million for the year ended 31 December 2013 due to our decreased level of bank borrowings.

Income tax expense

Our income tax expense increased by approximately 48.4% from approximately RMB6.2 million for the year ended 31 December 2012 to approximately RMB9.2 million for the year ended 31 December 2013 as a result of increase in our taxable profits.

Profit for the year

As a result of the above factors, our profit for the year increased by approximately 117.3% from approximately RMB17.3 million for the year ended 31 December 2012 to approximately RMB37.6 million for the year ended 31 December 2013. Net profit margin increased from approximately 4.2% for the year ended 31 December 2012 to approximately 7.8% for the year ended 31 December 2013.

Dividends

No dividend was declared and paid during the two years ended 31 December 2013.

DESCRIPTION OF CERTAIN ITEMS FROM OUR COMBINED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our combined statements of financial position as at each of the three years ended 31 December 2014, which have been derived from, and should be read in conjunction with our Accountants' Report.

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	63,782	71,406	79,366
Prepayment for property, plant and equipment	1,908	883	2,100
Prepaid land lease payments	15,776	15,306	14,836
Goodwill	1,628	1,628	1,628
Other intangible assets	1,439	1,573	1,366
Available-for-sale investments	450	—	—
Deferred tax assets	3,966	5,534	4,976
Rental deposits	2,491	2,505	3,275
Total non-current assets	91,440	98,835	107,547
CURRENT ASSETS			
Prepaid land lease payments	470	470	470
Inventories	81,241	108,940	88,471
Trade and notes receivables	26,806	28,804	35,489
Prepayments, deposits and other receivables	4,620	7,748	7,943
Available-for-sale investments	10,000	25,000	—
Cash and cash equivalents	25,044	29,077	58,004
Total current assets	148,181	200,039	190,377
CURRENT LIABILITIES			
Trade payables	49,458	54,218	52,802
Other payables and accruals	57,759	75,856	60,805
Amount due to a shareholder	54	53	—
Amounts due to the related parties	—	—	8,786
Interest-bearing bank borrowings	25,000	16,000	15,000
Deferred income	2,485	1,921	6,019
Tax payable	4,781	9,718	20,219
Total current liabilities	139,537	157,766	163,631
Net current assets	8,644	42,273	26,746
Total assets less current liabilities	100,084	141,108	134,293

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Deferred income	6,099	9,509	9,047
Deferred tax liabilities	1,414	1,389	4,349
Total non-current liabilities	7,513	10,898	13,396
Net assets	92,571	130,210	120,897
EQUITY			
Equity attributable to equity holders of our Company			
Issued capital	—	—	—
Reserves	92,571	130,210	120,897
Total equity	92,571	130,210	120,897

Property, plant and equipment

The table below shows the net book value of our property, plant and equipment as at each of the three years ended 31 December 2014:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Buildings	36,326	33,530	30,736
Leasehold improvement	14,212	20,169	18,641
Machinery	10,675	14,603	14,175
Motor vehicles	682	700	1,151
Office equipment	1,887	2,404	3,908
Construction in progress	—	—	10,755
Total	63,782	71,406	79,366

Our property, plant and equipment mainly comprise our office buildings, factories and warehouses located in Zhongshan, the machineries for the production of our pharmaceutical products, the leasehold improvements of our chain pharmacies and construction in progress. For the year ended 31 December 2013, we incurred (i) capital expenditure of approximately RMB7.5

million in connection with the purchase of production machineries for the expansion of our production capacity; and (ii) capital expenditure of approximately RMB10.4 million on the renovation of our production plants and chain pharmacies.

The net book value of our property, plant and equipment further increased from approximately RMB71.4 million as at 31 December 2013 to approximately RMB79.4 million as at 31 December 2014. We have incurred capital expenditure of approximately RMB7 million on the set-up of the State-level laboratory and approximately RMB10.8 million for the expansion of our production plant. The expansion work remained incomplete at the respective year end, and hence the related capital expenditure was classified as construction in progress.

Inventories

The following table is a summary of our inventories as at each of the three years ended 31 December 2014 and the turnover days for the respective years:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Raw materials	19,692	31,698	22,146
Work in progress	7,811	14,177	7,983
Finished goods			
— Own-branded products	17,828	26,742	10,892
— Non-own branded products	35,910	36,323	47,450
Total	81,241	108,940	88,471

	For the year ended 31 December		
	2012	2013	2014
Inventory turnover days *(Note)*	65.0	71.9	60.5

Note: Turnover days of inventory are derived by dividing the arithmetic mean of the opening and closing balances of inventory by revenue for the relevant period and multiplying the number of days during the period generating the sales (i.e. 365 days for each of the three years ended 31 December 2014).

Our inventories consist of raw materials, work in progress and finished goods. Raw materials mainly include Chinese herbs. Work in progress represents the unfinished products of our pharmaceutical manufacturing. Finished goods include (i) our own-branded products awaiting delivery as well as those kept on the shelves in our chain pharmacies; and (ii) the products sourced from independent suppliers for resale in our chain pharmacies.

Our information system enables us to keep track of our inventory movement so that we can maintain a sufficient level of raw materials and finished products for our business. We write down our inventories to their net realisable values based on a case-by-case assessment. For each of the three years ended 31 December 2014, we recognised loss on write-down of inventories of approximately RMB0.1 million, RMB0.1 million and nil, respectively.

Our inventories increased by approximately 34.1% from approximately RMB81.2 million as at 31 December 2012 to approximately RMB108.9 million as at 31 December 2013, but decreased by approximately 18.7% to approximately RMB88.5 million as at 31 December 2014. During the year ended 31 December 2013, we increased our inventories to avoid any delay in product delivery when the relevant government authorities carried out GMP compliance inspections on our production facilities in 2014.

As a result, the turnover of inventory as at 31 December 2013 was prolonged to about 72 days.

As at 30 April 2015, 50% of our Group's raw materials as at 31 December 2014 had been utilised. All of our work in progress as at 31 December 2014 had been completed and delivered. 84.2% of our finished goods as at 31 December 2014 had been delivered. On an overall basis, 77.1% of our Group's inventories as at 31 December 2014 had been utilised or delivered.

Trade and notes receivables

The following table is a summary of our Group's trade and notes receivables as at each of the three years ended 31 December 2014 and the turnover days of trade and notes receivables for the respective years:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade receivables	16,122	17,069	25,381
Notes receivables	10,758	11,759	10,125
	26,880	28,828	35,506
Less: Impairment of trade receivables	(74)	(24)	(17)
Trade and notes receivables — net	26,806	28,804	35,489

	For the year ended 31 December		
	2012	2013	2014
Trade and notes receivables turnover days *(Note)*	50.6	49.0	39.8

Note: Turnover days of trade and notes receivables are derived by dividing the arithmetic mean of the opening and closing balances of trade and notes receivables by revenue from our pharmaceutical manufacturing for the relevant period and multiplying the number of days during the period generating the sales (i.e. 365 days for each of the three years ended 31 December 2014).

Our trade and notes receivables as at each of the three years ended 31 December 2014 were due from sizable upper-level contractual distributors and independent chain pharmacies, which have stable business relationship with us and no default payment in the past. We generally offer these customers a credit period of not exceeding 60 days, whereas other customers (including our non-contractual distributors) are required to make full payment before product delivery. The credit terms offered to contractual distributors and independent chain pharmacies are determined by our senior management and depend on various factors such as financial strength, size of the business and payment history of the customer and length of business relationship with us. For our operation of chain pharmacies segment, sales are usually made in cash or settled by debit or credit cards or medical insurance cards.

Our trade and notes receivables, net of impairment, were approximately RMB26.8 million, RMB28.8 million and RMB35.5 million as at each of the three years ended 31 December 2014, respectively.

Our trade and notes receivable turnover days for each of the two years ended 31 December 2013 remained stable at 50.6 days and 49 days, respectively. For the year ended 31 December 2014, our trade and notes receivables days decreased to 39.8 days.

We allow certain customers to settle their purchases by way of bank acceptance notes. Such notes receivables are generally settled by the relevant banks within a period ranging from one month to six months. As at each of the three years ended 31 December 2014, our Group endorsed notes receivables (the "**Endorsed Notes**") with carrying amounts of approximately RMB31.5 million, RMB29.2 million and RMB35.9 million to our suppliers, of which RMB22.3 million, RMB20.4 million and RMB27.8 million were derecognised, respectively. As the holders of the Endorsed Notes have a right of recourse against our Group in the event that the relevant banks default, we carefully assess the default risks before we derecognise any notes receivables. Such assessment is based on the credit rating reports on these banks publicly announced by an independent credit rating agency in the PRC. We only derecognise those notes receivables that have been accepted by PRC banks with high credit ratings as our Directors are of the view that the risk of these banks going default is remote and our Group has transferred all risks and rewards relating to the relevant notes receivables to the suppliers. We confirmed that derecognising these notes receivables fully complied with the relevant accounting standards.

The following is an ageing analysis of trade receivables, based on the invoice date, as at each of the three years ended 31 December 2014:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 3 months	15,211	16,795	24,863
3 to 12 months	672	274	334
Over 12 months	239	—	184
	16,122	17,069	25,381

Our management closely monitors the recoverability of overdue trade receivables on a regular basis and provides for impairment for these trade receivables when there are indications that the balances may not be recoverable. We recognised an impairment of trade receivables of approximately RMB74,000 for the year ended 31 December 2012, and a reversal of impairment of trade receivables of approximately RMB50,000 and RMB7,000 for each of the two years ended 31 December 2014, respectively. As at 30 April 2015, 91.3% of our trade receivables as at 31 December 2014 were settled. Our Directors considered that the outstanding balance, net of impairment, will be received and the current provision for impairment of trade receivables was considered adequate.

Prepayments, deposits and other receivables

Our prepayments primarily consist of upfront payment made to independent suppliers for the procurement of raw materials, merchandises for resale in our chain pharmacies and property, plant and equipment, as well as prepaid operating expenses. Our deposits and other receivables primarily consist of prepaid tax and tax refund.

Prepayments, deposits and other receivables as at each of the three years ended 31 December 2014 were approximately RMB4.6 million, RMB7.7 million and RMB7.9 million, respectively, of which RMB1 million, RMB4.6 million and RMB0.9 million was related to value-added tax recoverable.

Available-for-sale investments (current portion)

As at each of the three years ended 31 December 2014, we had available-for-sale financial assets of approximately RMB10 million, RMB25 million and nil, respectively. These financial assets represented our investments in the financial products of a PRC state-owned bank using our surplus funds and the return of these investments was linked to the performance of bonds and listed securities. For each of the three years ended 31 December 2014, we received interest income from

these investments of approximately RMB0.4 million, RMB0.4 million and RMB0.5 million, respectively. All of our available-for-sale financial assets reached maturity in August 2014. We do not intend to invest in any financial assets going forward.

Trade payables

Our trade payables mainly represent the procurement costs of (i) raw materials for the production of our own-branded products; and (ii) merchandises for resale in our chain pharmacies. The following is an ageing analysis of trade payables, based on the invoice date, as at each of the three years ended 31 December 2014 and the turnover days for the respective years:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 3 months	38,366	45,764	43,740
3 to 12 months	9,124	6,734	7,676
Over 12 months	1,968	1,720	1,386
	49,458	54,218	52,802

	For the year ended 31 December		
	2012	2013	2014
Trade payables turnover days *(Note)*	43.0	39.2	32.8

Note: Turnover days of trade payables are derived by dividing the arithmetic mean of the opening and closing balances of trade payables by revenue for the relevant period and multiplying the number of days during the period generating the sales (i.e. 365 days for each of the three years ended 31 December 2014).

Our suppliers generally grant credit period of not exceeding 60 days to us. Our trade payables turnover days decreased from 43 days for the year ended 31 December 2012 to 39.2 days for the year ended 31 December 2013, and further decreased to 32.8 days for the year ended 31 December 2014.

As at 30 April 2015, 98.5% of our trade payables as at 31 December 2014 were settled. We did not have any material defaults in payments of our trade payables during the Track Record Period.

Other payables and accruals

The following table is a summary of our Group's other payables and accruals as at each of the three years ended 31 December 2014:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Receipts in advance	21,852	22,554	19,382
Endorsed bills	9,135	8,814	8,112
Accrued employee benefit expenses	12,582	20,725	16,686
Other tax payables	4,458	6,912	6,869
Others	9,732	16,851	9,756
	57,759	75,856	60,805

Other payables and accruals mainly represented receipts in advance from our clients of pharmaceutical manufacturing, bank acceptance notes that were endorsed to our suppliers, accrued employee benefit expenses, other tax payables and payables in connection with the purchase of property, plant and equipment. Other payables and accruals as at each of the three years ended 31 December 2014 amounted to approximately RMB57.8 million, RMB75.9 million and RMB60.8 million, respectively. As at 31 December 2013, accrued bonus increased to approximately RMB11.6 million from approximately RMB6.9 million as at 31 December 2012.

Our Directors confirm that there had been no material defaults by our Group in payments of our other payables and accruals during the Track Record Period.

Amounts due to the related parties

As at each of the three years ended 31 December 2014, amounts due to the related parties were nil, nil and RMB8.8 million respectively, representing the actual amount of investment in Zhongzhi Herb Pieces made by the Registered Shareholders.

In order for our Group to manage the business of Zhongzhi Herb Pieces and exercise control over its economic benefits, Zhongzhi Pharmaceutical entered into the Contractual Arrangements with Zhongzhi Herb Pieces and the Registered Shareholders. When Zhongzhi Pharmaceutical exercises the option pursuant to the call option agreement under the Contractual Arrangements to purchase the equity interests owned by the Registered Shareholders in Zhongzhi Herb Pieces, our Group will return to the Registered Shareholders their actual amount of investment in Zhongzhi Herb Pieces. For details of this call option agreement, please refer to the "Contractual Arrangements" section in this [REDACTED].

Taking into account (i) our internally generated cash flows; (ii) unutilised banking facilities of approximately RMB20 million as at 30 April 2015; and (iii) the estimated net proceeds of the [REDACTED], our Directors are of the opinion that our Group will have sufficient working capital to meet our present requirements, that is, for at least in the next 12 months commencing from the date of this [REDACTED], and that our Group had no financial reliance on the Registered Shareholders.

Deferred income (current and non-current portion)

Deferred income represented the government grants received by us in connection with the government support to our research and development projects as well as our business expansion. As at each of the three years ended 31 December 2014, our deferred income amounted to approximately RMB8.6 million, RMB11.4 million and RMB15.1 million, respectively, of which approximately RMB2.5 million, RMB1.9 million and RMB6 million was recognised as current liabilities whereas the remaining portion was recognised as non-current liabilities. Out of the aggregate deferred income as at 31 December 2014, approximately RMB6 million will be recognised as other income for the year ending 31 December 2015 and the remaining balance will be recognised in financial years from 2016 to 2018.

Net current assets

The following table sets out the breakdown of our Group's current assets, current liabilities and net current assets as at each of the three years ended 31 December 2014 and 30 April 2015:

	As at 31 December			As at 30 April
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
CURRENT ASSETS				
Prepaid land lease payments	470	470	470	470
Inventories	81,241	108,940	88,471	110,909
Trade and notes receivables	26,806	28,804	35,489	19,471
Prepayments, deposits and other receivables	4,620	7,748	7,943	19,446
Available-for-sale investments	10,000	25,000	—	—
Cash and cash equivalents	25,044	29,077	58,004	20,024
Total current assets	148,181	200,039	190,377	170,320
CURRENT LIABILITIES				
Trade payables	49,458	54,218	52,802	68,514
Other payables and accruals	57,759	75,856	60,805	36,570
Amount due to a shareholder	54	53	—	—
Amounts due to the related parties	—	—	8,786	8,786
Bank borrowings	25,000	16,000	15,000	15,000
Deferred income	2,485	1,921	6,019	6,019
Tax payable	4,781	9,718	20,219	10,056
Total current liabilities	139,537	157,766	163,631	144,945
Net current assets	8,644	42,273	26,746	25,375

Our Group recorded net current assets of RMB8.6 million, RMB42.3 million, RMB26.7 million and RMB25.4 million as at each of the three years ended 31 December 2014 and 30 April 2015, respectively. During the year ended 31 December 2013, we increased our inventory level to avoid delay in product delivery during the GMP compliance inspection period. We also increased our available-for-sale investments with our surplus funds. The decrease in our net current assets as at 31 December 2014 was primarily due to the decrease in our inventories, the increase in amounts due to related parties and the increase in our tax payable resulted from the increase in our taxable profits.

Off balance sheet transactions

As at the Latest Practicable Date, we did not enter into any material off-balance sheet transactions.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We historically financed our working capital requirements through cash generated from our operations and bank borrowings. Our working capital requirements mainly consist of staff costs as well as the procurement costs of raw materials and merchandises for resale in our chain pharmacies. Upon completion of the [REDACTED], our Directors expect that our source of funding will be a combination of cash generated from our operations and net proceeds from the [REDACTED].

Cash flows

The following table is a condensed summary of our combined statements of cash flow for the periods indicated:

	For the year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Net cash flows from operating activities	55,539	44,984	121,636
Net cash flows (used in)/from investing activities	(5,495)	(30,567)	5,293
Net cash flows used in financing activities	(44,010)	(10,384)	(98,002)
Cash and cash equivalents as at the beginning of the year	19,010	25,044	29,077
Cash and cash equivalents as at the end of the year	25,044	29,077	58,004

Operating activities

Net cash flows from operating activities primarily consists of our profit before tax adjusted by non-cash adjustments, such as depreciation on property, plant and equipment, amortisation of prepaid land lease payments and intangible assets and the effect of changes in working capital.

Our Group derives cash inflow from operating activities principally from the receipts of payments for the sale of products. Our Group's cash outflow from operating activities mainly consists of payments for the procurement of raw materials, merchandises sourced from our suppliers, rental expenses and employee benefit expenses.

Net cash flows from operating activities for the year ended 31 December 2014 was approximately RMB121.6 million while our Group's profit before tax for the same period was approximately RMB114.8 million. The difference of approximately RMB6.8 million was attributed to the adjustment of depreciation of approximately RMB12 million and the increase in amounts due to related parties of approximately RMB8.8 million, but partially offset by the decrease in other payables and accruals of approximately RMB14.1 million.

Net cash flows from operating activities for the year ended 31 December 2013 was approximately RMB45 million while our Group's profit before tax for the same period was approximately RMB46.8 million. The difference of approximately RMB1.8 million can be explained by the increase in inventories of approximately RMB27.7 million, but partially offset by the adjustment of depreciation of approximately RMB10.7 million and the increase in other payables and accruals of approximately RMB17.4 million.

Net cash flows from operating activities for the year ended 31 December 2012 was approximately RMB55.5 million while our Group's profit before tax for the same period was approximately RMB23.4 million. The difference of approximately RMB32.1 million was primarily due to the increase in other payables and accruals of approximately RMB25.5 million related to the acquisition of machineries and equipment for the production of our own-branded products.

Investing activities

Net cash flows from investing activities for the year ended 31 December 2014 was approximately RMB5.3 million. During the year, capital expenditure of approximately RMB20.6 million was incurred on the property, plant and equipments for our daily operations. This was partially offset by the principal amount of our available-for-sale investments together with interest income of approximately RMB25.9 million in aggregate received upon maturity.

Net cash flows used in investing activities for the year ended 31 December 2013 was approximately RMB30.6 million. During the year, capital expenditure of approximately RMB16.6 million was incurred on the property, plant and equipments for our daily operations. Our available-for-sale investments also increased by approximately RMB15 million.

Net cash flows used in investing activities for the year ended 31 December 2012 was approximately RMB5.5 million. During the year, capital expenditure of approximately RMB10.1 million was incurred on the property, plant and equipments for our daily operations. This was partially offset by the net decrease in our available-for-sale investments of approximately RMB$5 million.

Financing activities

Net cash flows used in financing activities for the year ended 31 December 2014 was approximately RMB98 million. We had distributed dividends of approximately RMB96 million.

Net cash flows used in financing activities for the year ended 31 December 2013 was approximately RMB10.4 million as a result of the net decrease in bank borrowings of approximately RMB9 million.

Net cash flows used in financing activities for the year ended 31 December 2012 was approximately RMB44 million which was mainly attributable to the net decrease in bank borrowings of approximately RMB50.1 million.

Working capital

Our Directors are of the opinion that our internally generated cash flows, unutilised banking facilities together with the estimated net proceeds of the [REDACTED], will be sufficient to meet our present requirements, that is, for at least in the next 12 months commencing from the date of this [REDACTED].

CAPITAL EXPENDITURES

During the Track Record Period, we incurred capital expenditure mainly on the renovation of our production plants and chain pharmacies, the set-up of a State-level laboratory as well as for the purchase of production machineries. Our capital expenditures, including the deposits for the purchase of property, plant and equipment, were approximately RMB12 million, RMB17.5 million and RMB21.9 million for each of the three years ended 31 December 2014, respectively. These capital expenditures were funded by the cash flows from our operating activities.

We expect that our total capital expenditures for the year ending 31 December 2015 to be approximately RMB22.3 million, which will be used for purchasing fixed assets for research and development activities and production of our own-branded products. We intend to fund our planned capital expenditures through a combination of the net proceeds from the [REDACTED], bank borrowings and cash flow from operating activities.

INDEBTEDNESS

As at 30 April 2015, being the latest practicable date for the purpose of this statement prior to the printing of this [REDACTED], we had available unutilised banking facilities of approximately RMB20 million and had total bank borrowings of approximately RMB15 million, which were secured by our properties, plant and equipment and land use rights.

The following table sets out our bank borrowings as at each of the three years ended 31 December 2014:

	As at 31 December			As at 30 April
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities:				
Secured bank borrowings repayable within one year — Fixed interest rate	25,000	16,000	15,000	15,000

In order to minimise our finance costs, we repaid certain portion of our bank borrowings during the Track Record Period. As at each of the three years ended 31 December 2014, our outstanding bank borrowings were approximately RMB25 million, RMB16 million and RMB15 million and all of them were subject to fixed interest rates. The range of effective interest rates of our bank borrowings for each of the three years ended 31 December 2014 was 6.56% to 7.54%, 6% to 6.9% and 6% to 6.9%, respectively.

All of our bank borrowings during the Track Record Period were secured by our properties, plant and equipment and land use rights. As at each of the two years ended 31 December 2013, we had bank facilities of approximately RMB32 million and RMB32 million (of which RMB8 million and RMB8 million was utilised, respectively) secured by the personal guarantee from Mr. Lai, respectively. Mr. Lai's personal guarantee was released during the year ended 31 December 2014.

The agreements under our outstanding bank borrowings do not contain any material covenants that will have a material adverse impact on our ability to make additional borrowings or issue debt or equity securities in the future.

Except as described above and apart from intra-group liabilities and normal trade payables, as at 30 April 2015, being the latest practicable date for determining our indebtedness, 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.

Our Directors confirm that there had been no defaults by our Group in payment of its bank borrowings during the Track Record Period.

CONTINGENT LIABILITIES

As at each of the three years ended 31 December 2014, we had no material contingent liabilities. Our Directors confirm that we did not have any material contingent liabilities as at the Latest Practicable Date.

CAPITAL COMMITMENTS

The table below sets forth the capital commitments of our Group as at each of the three years ended 31 December 2014:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Land and buildings	—	1,612	545
Plant and machinery	1,807	1,304	1,745
	1,807	2,916	2,290

OPERATING LEASE COMMITMENTS

Our operating lease commitments represent the leases of various chain pharmacies, offices, warehouse and staff quarters. The lease terms generally range from one year to eight years.

As at each of the three years ended 31 December 2014, our Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within one year	16,561	17,113	16,894
In the second to fifth years, inclusive	46,591	31,548	34,561
Beyond five years	5,502	3,388	4,501
Total	68,654	52,049	55,956

MAJOR FINANCIAL RATIOS

The table below sets forth our major financial ratios as at or for each of the three years ended 31 December 2014:

	As at or for the year ended 31 December		
	2012	2013	2014
Current ratio *(Note 1)*	1.1	1.3	1.2
Quick ratio *(Note 2)*	0.5	0.6	0.6
Gearing ratio *(Note 3)*	27.0%	12.3%	12.4%
Debt to equity ratio *(Note 4)*	—	—	—
Interest coverage *(Note 5)*	6.5 times	34.8 times	115.6 times
Return on equity *(Note 6)*	18.6%	28.9%	71.7%

Notes:

1. Current ratio is calculated by dividing current assets by current liabilities.
2. Quick ratio is calculated by dividing current assets after subtraction of inventories by current liabilities.
3. Gearing ratio is calculated by dividing total debt by total equity. Total debt is defined to include payables incurred not in the ordinary course of business.
4. Debt to equity ratio is calculated by dividing net debt by total equity. Net debt is defined to include all borrowings net of cash and cash equivalents.
5. Interest coverage is calculated by dividing profit before interest and tax by interest.
6. Return on equity is calculated by dividing net profit attributable to the equity holders of our Company with the closing balance of total equity.

Current ratio and quick ratio

Our current ratio and quick ratio as at each of the three years ended 31 December 2014 remained relatively stable at 1.1 and 0.5; 1.3 and 0.6; and 1.2 and 0.6, respectively.

Gearing ratio

Our gearing ratio as at each of the three years ended 31 December 2014 was 27%, 12.3% and 12.4%, respectively. During the year ended 31 December 2013, we have repaid our bank borrowings. We had maintained a low gearing ratio due to our low level of bank borrowings as well as the increase in our equity contributed by our profitable operations.

Debt to equity ratio

We had a net cash position as at each of the three years ended 31 December 2014. Our cash and cash equivalents amounted to approximately RMB25 million, RMB29.1 million and RMB58 million as at the respective year-end.

Interest coverage

Our interest coverage increased from 6.5 times for the year ended 31 December 2012 to 34.8 times for the year ended 31 December 2013, and further increased to 115.6 times for the year ended 31 December 2014. The increase in our interest coverage was due to the combined effects of (i) the decrease in finance costs resulted from our decreased level of bank borrowings; and (ii) the significant increase in our net profit before interest and tax from approximately RMB27.7 million for the year ended 31 December 2012 to approximately RMB48.2 million for the year ended 31 December 2013, and further to approximately RMB115.8 million for the year ended 31 December 2014.

Return on equity

Return on equity was 18.6%, 28.9% and 71.7% for each of the three years ended 31 December 2014. Our return on equity increased with our increase in profitability. However, our total equity decreased to RMB120.9 million as at 31 December 2014 from RMB130.2 million as at 31 December 2013, after the dividend distribution of approximately RMB96 million. Accordingly, our return on equity significantly increased to 71.7% as at 31 December 2014.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of market risks, including credit risk and liquidity risk, in the ordinary course of our business.

Credit risk

Our Group's credit risk is primarily attributable to trade and notes receivables as well as cash and cash equivalents. Our management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In order to minimise the credit risk associated with trade receivables, our management is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our Group reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. No credit terms are granted to new customers or our non-contractual distributors.

There is no concentration of credit risk with respect to trade receivables from third party customers as the five largest receivable balances only accounted for approximately 23.1%, 18.5% and 36.4% of total trade receivables as at each of the three years ended 31 December 2014, respectively.

The credit risks on our notes receivables and cash and cash equivalents are limited because the counterparties are banks with high credit rankings.

Liquidity risk

In the management of the liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance our Group's operations and mitigate the effects of fluctuations in cash flows. The management of our Company monitors the utilisation of banking facilities and ensures compliance with borrowing covenants.

[REDACTED] EXPENSES

[REDACTED] expenses directly attributable to the issue of new shares are recognised in equity, otherwise they are recognised as administrative expenses.

The total estimated [REDACTED] expenses in connection with the [REDACTED] (including underwriting commission) was approximately RMB[REDACTED], assuming the [REDACTED] is not exercised and based on the mid-point of the indicative [REDACTED] range. For the year ended 31 December 2014, our Group incurred [REDACTED] expenses of approximately RMB[REDACTED], of which RMB[REDACTED] was charged to the profit and loss and the remaining RMB[REDACTED] was recognised as prepayment. For the year ending 31 December 2015, we estimate that the [REDACTED] expenses to be incurred will amount to RMB[REDACTED], of which RMB[REDACTED] will be charged to profit and loss in the year and the remaining RMB[REDACTED] will be charged against equity upon successful [REDACTED] under relevant accounting standards.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, save as disclosed above, as at the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS

Details concerning our property interests are set out in Appendix III to this [REDACTED]. BMI Appraisals Limited, an independent property valuer, has valued our property interests as at 31 May 2015. The full text of the letter, summary of values and valuation certificates with respect to such property interests are set out in Appendix III to this [REDACTED].

The table below sets forth the reconciliation between the net book value of our property interests as at 31 December 2014 and the valuation of such property interests as at 31 May 2015:

	RMB'000
Net book value of property interests as at 31 December 2014	46,042
Depreciation and amortisation	(680)
Net book value of property interests as at 31 May 2015	45,362
Valuation surplus	49,438
Valuation as at 31 May 2015 as per Appendix III to this [REDACTED]	94,800

DIVIDEND POLICY

Dividends may be paid out by ways of cash or by other means we consider appropriate. For each of the three years ended 31 December 2014, our Group declared dividends of nil, nil and RMB96 million, respectively. The dividends declared during the year ended 31 December 2014 had been fully paid by the end of September 2014. Our Group declared and paid out a dividend for approximately RMB30 million in April 2015. Payment of any future dividends will be made at the discretion of our Board and will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors consider relevant.

The declaration, payment and amount of any future dividends will be subject to our constitutional documents comprising the memorandum of association and the Articles including, where necessary, the approval of our Shareholders. Investors should note that historical dividend distributions are not indicative of our future dividend distribution policy.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 30 of section II to the Accountants' Report, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms that were no less favourable to us than terms available from independent third parties which are fair and reasonable and in the interest of the Shareholders as a whole.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands and has not carried out any business since the date of its incorporation, save for investment holding and the transactions related to the Reorganisation. Accordingly, our Company has no reserve available for distribution to the Shareholders as at the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets have been prepared in accordance with Rule 4.29 of 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 for illustration purposes only, and is set out here to illustrate the effect of the [REDACTED] on our combined net tangible assets as of 31 December 2014 as if it had taken place on 31 December 2014.

The unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the [REDACTED] been completed as of 31 December 2014 or any future date. It is prepared based on our combined net tangible assets as of 31 December 2014 as set out in the Accountants' Report, and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report.

	Combined net tangible assets attributable to equity holders of our Company as of 31 December 2014	**Estimated net proceeds from the [REDACTED]**	**Unaudited pro forma adjusted combined net tangible assets**	**Unaudited pro forma adjusted combined net tangible assets per [REDACTED]**	
	RMB'000 *(Note 1)*	**RMB'000** *(Note 2)*	**RMB'000**	**RMB** *(Note 3 and Note 4)*	**(HK$ equivalent)** *(Note 5)*
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The combined net tangible assets of our Group attributable to equity holders of our Company as of 31 December 2014 is extracted from the Accountants' Report, which is based on the audited combined equity attributable to equity holders of our Company as of 31 December 2014 of approximately RMB120.9 million less goodwill and other intangible assets as of 31 December 2014 of approximately RMB1.6 million and RMB1.3 million, respectively.

(2) The estimated net proceeds from the [REDACTED] are based on the [REDACTED] of HK$[REDACTED] per [REDACTED] and HK$[REDACTED] per [REDACTED], after deduction of the underwriting fees and related expenses payable by our Company and does not take into account of any Shares which may be issued upon the exercise of the [REDACTED]. The estimated net proceeds from the [REDACTED] are converted from Hong Kong dollars into Renminbi at an exchange rate of HK$1.0 to RMB0.8 prevailing on 31 December 2014.

(3) The unaudited pro forma adjusted combined net tangible assets per [REDACTED] is calculated based on [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and does not take into account of any Shares which may be issued upon the exercise of the [REDACTED].

(4) The unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company does not take into account a dividend of RMB30 million declared and paid by Zhongzhi Pharmaceutical in April 2015. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per [REDACTED] would be HK$[REDACTED] (assuming an [REDACTED] of HK$[REDACTED] per Share) and HK$[REDACTED] (assuming an [REDACTED] of HK$[REDACTED] per Share), respectively.

(5) The unaudited pro forma adjusted combined net tangible assets per [REDACTED] is converted into Hong Kong dollars at an exchange rate of HK$1.0 to RMB0.8 prevailing on 31 December 2014.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, up to the date of this [REDACTED], there has been no material adverse change in the financial or trading position or prospect of our Group since 31 December 2014, being the end of period reported in the Accountants' Report, and there has been no event since 31 December 2014 which would materially affect the information shown in the Accountants' Report.

FUTURE PLANS

Please refer to the paragraph headed "Business — Business strategies" in this [REDACTED] for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds available to us from the [REDACTED] (after deducting underwriting commissions and estimated expenses payable by us in connection with the [REDACTED]) will be approximately HK$[REDACTED] (assuming the [REDACTED] is not exercised and the [REDACTED] of HK$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range). We intend to apply these net proceeds in the following manner:

(i) approximately HK$[REDACTED] (equivalent to approximately [REDACTED] of our total estimated net proceeds) will be used for the expansion of our pharmaceutical chain in the Guangdong province. We plan to establish 200 self-operated pharmacies by the end of 31 December 2018, this will include:

- approximately [REDACTED] or HK$[REDACTED] for the establishment of 30 self-operated pharmacies in each of Jiangmen and Zhuhai in 2016;
- approximately [REDACTED] or HK$[REDACTED] for the establishment of 40 self-operated pharmacies in each of Fosun and Dongguan in 2017;
- approximately [REDACTED] or HK$[REDACTED] for the establishment of 60 self-operated pharmacies in other cities of the Guangdong province in 2018;

Our Directors confirm that they are not aware of any regulatory restrictions for expanding our pharmaceutical chain in the Guangdong province. It is expected that we will recover our planned capital expenditure on each pharmacy in two years from the date of its establishment.

(ii) approximately HK$[REDACTED] (equivalent to approximately [REDACTED] of our total estimated net proceeds) will be used for the expansion of our distribution networks. This will include:

- approximately [REDACTED] or HK$[REDACTED] for the recruitment of additional sales staff to increase our sales and marketing activities over the next three years. Such sales and marketing activities will include organisation of seminars and conferences to consolidate our relationship with our existing distributors and independent chain pharmacies and explore new relationship with other distributors and independent chain pharmacies, with a focus on the Eastern and Southern China; and

— approximately [REDACTED] or HK$[REDACTED] for placing advertisements through television, newspapers, medical journals and sponsoring certain pharmaceutical conferences to promote (a) our core brands; (b) our own-branded products; and (c) our chain pharmacies;

Our extensive distribution network has been very crucial to the distribution of our own-branded products. Our Directors believe that the aforesaid expenditure on the expansion of our distribution network will have significant contributions to our future sales growth and hence such expenditure will be recovered in a short period of time.

(iii) approximately HK$[REDACTED] (equivalent to approximately [REDACTED] of our total estimated net proceeds) will be used to continue our research and development activities with a focus on the application of modern decoction pieces production techniques and strengthening our product portfolio thereof in order to support our long-term growth. This will include:

— approximately [REDACTED] or HK$[REDACTED] for the recruitment of additional experts and staff for different aspects of research and development;

— approximately [REDACTED] or HK$[REDACTED] for the purchase of new equipment required for our research and development activities; and

— approximately [REDACTED] or HK$[REDACTED] for the funding of our research and development activities;

(iv) approximately HK$[REDACTED] (equivalent to approximately [REDACTED] of our total estimated net proceeds), will be used for the purchase of machineries for our manufacturing of modern decoction pieces and to upgrade our existing production facilities as we expect that the production volume of our modern decoction pieces will increase by 20% for each of the two years ending 31 December 2016 to meet the increase in demand for our products. This will include:

— approximately [REDACTED] or HK$[REDACTED] for the purchase of machineries for the manufacturing of our modern decoction pieces. We plan to acquire five jet stream ultra-fine pulverisation machines, five granulating machines and four fully-automated production lines; and

— approximately [REDACTED] or HK$[REDACTED] for the automation of our current production procedures by upgrading our existing production facilities;

It is expected that we will recover our planned capital expenditure on the expansion of our production capacity in three years when the expansion is completed.

(v) approximately HK$[REDACTED] (equivalent to approximately [REDACTED] of our total estimated net proceeds) will be used for working capital and other general corporate purposes.

In the event that the [REDACTED] is exercised in full and the [REDACTED] is set at the low-end or high-end of the [REDACTED], the net proceeds from the [REDACTED] will decrease or increase by approximately HK$[REDACTED]. Under such circumstances, we will adjust our allocation of the net proceeds in the same proportion as set out above.

Our pilot production status of modern decoction pieces may be terminated or subject to any prohibition, restrictions, limitation or suspension. For details, please refer to the paragraph headed "Risk Factors — Our status of modern decoction pieces pilot production enterprise may be subject to revocation, termination, suspension or alteration any time by the relevant authorities in the PRC" in this [REDACTED]. In such event or if the Contractual Arrangements become invalid as detailed in the "Contractual Arrangements" section in this [REDACTED], taking into consideration the rapidly increasing total retail sales value of Chinese medicines in the PRC as set out in the "Industry Overview" section in this [REDACTED], we will fully reallocate the net proceeds mentioned in paragraphs (iii) and (iv) above to the (i) research and development of Chinese patent medicines; and (ii) expansion of the production capacity of our existing Chinese patent medicines and those which we have already obtained production approvals from the relevant government authorities, but yet to be launched in the market.

To the extent that the net proceeds of the [REDACTED] are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or the PRC.

We will issue an appropriate announcement if there is any material change in the abovementioned use of proceeds.

BACKGROUND

Our Group engages in the business of pharmaceutical manufacturing and operation of chain pharmacies. The products we develop, manufacture and sell includes Chinese patent medicines and decoction pieces.

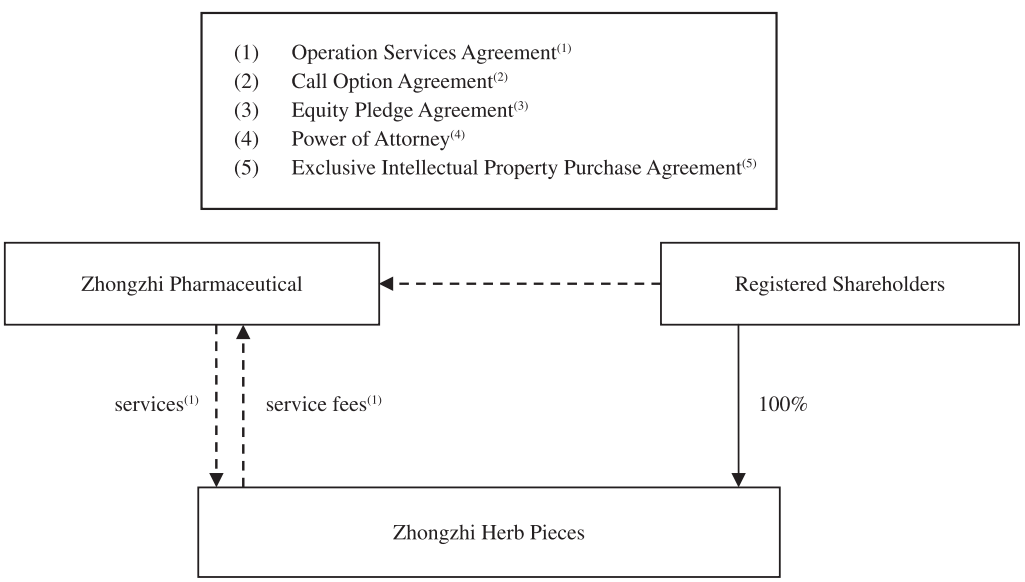
Zhongzhi Herb Pieces is a major operating subsidiary of our Group in the PRC engaged in the production of decoction pieces. Under the relevant PRC laws and regulations, namely the Foreign Investment Catalogue and as confirmed by a competent officer in the GFDA, production of our traditional and modern decoction pieces which involves the application of processing techniques such as steaming, stir-frying, moxibustion and calcination, are prohibited from foreign investment. Please refer to the "Regulation" section in this [REDACTED] for further details. As the production of our traditional and modern decoction pieces involves the application of the aforesaid processing techniques, we are not allowed to hold any equity interest in Zhongzhi Herb Pieces under the applicable PRC laws and regulations.

The Contractual Arrangements which consist of, namely an operation services agreement (the "**Operation Services Agreement**"), a call option agreement (the "**Call Option Agreement**"), an equity pledge agreement (the "**Equity Pledge Agreement**"), a power of attorney (the "**Power of Attorney**") and an exclusive intellectual property purchase agreement (the "**Exclusive Intellectual Property Purchase Agreement**"), were entered into in order for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces flow to Zhongzhi Pharmaceutical by means of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical.

ARRANGEMENTS UNDER THE CONTRACTUAL ARRANGEMENTS

Operation of the Contractual Arrangements

Zhongzhi Pharmaceutical entered into the Contractual Arrangements with Zhongzhi Herb Pieces and the Registered Shareholders. The following diagram illustrates the operation of the Contractual Arrangements which results in the flow of all economic benefits from Zhongzhi Herb Pieces to our Group stipulated under the Contractual Arrangements:



Notes:

(1) Pursuant to the Operation Services Agreement, Zhongzhi Pharmaceutical was engaged exclusively to provide Zhongzhi Herb Pieces with, *inter alia*, management and consultancy services in consideration of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical.

(2) Pursuant to the Call Option Agreement, the Registered Shareholders have granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their entire equity interests in Zhongzhi Herb Pieces according to the terms contained therein.

(3) Pursuant to the Equity Pledge Agreement, the Registered Shareholders have pledged their entire equity interests in Zhongzhi Herb Pieces (together with the rights derived therefrom) in favour of Zhongzhi Pharmaceutical as security for the performance of all the contractual obligations by Zhongzhi Herb Pieces and the Registered Shareholders under the Operation Services Agreement, the Call Option Agreement, the Power of Attorney and the Exclusive Intellectual Property Purchase Agreement.

(4) Pursuant to the Power of Attorney, the Registered Shareholders jointly and severally and irrevocably appointed Zhongzhi Pharmaceutical as their attorney to exercise their shareholders' rights in Zhongzhi Herb Pieces.

(5) Pursuant to the Exclusive Intellectual Property Purchase Agreement, Zhongzhi Herb Pieces and the Registered Shareholders jointly and severally granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any of the intellectual property that Zhongzhi Herb Pieces has according to the terms contained therein.

(6) "—" denotes direct legal and beneficial ownership in the equity interest and "- - -" denotes contractual relationship.

In accordance with the Call Option Agreement, the Registered Shareholders (being immediate shareholders who together are interested in the entire equity interest in Zhongzhi Herb Pieces) have granted an irrevocable and unconditional exclusive option to Zhongzhi Pharmaceutical to purchase all or part of the equity interest in Zhongzhi Herb Pieces held by the Registered Shareholders as permitted by the applicable PRC laws and regulations. We will unwind the Contractual Arrangements and acquire Zhongzhi Herb Pieces or the production of decoction pieces business it is carrying on when the applicable PRC laws and regulations allow the operation of such business by foreign invested enterprises. When Zhongzhi Pharmaceutical or its nominee(s) exercises the option and acquire the entire equity interest in Zhongzhi Herb Pieces, the Contractual Arrangements will be terminated. Subject to compliance with the PRC laws and regulations, Zhongzhi Pharmaceutical or its nominee(s) may exercise the option mentioned above at any time and in any manner at their sole discretion.

The Contractual Arrangements, taken as a whole, enable the financial results of Zhongzhi Herb Pieces and all economic benefits of its business to flow onto Zhongzhi Pharmaceutical. As a holding company, our Company's ability to pay dividends and other cash distributions to our Shareholders depends on our ability to receive dividends and other distributions from Zhongzhi Pharmaceutical. The amount of dividends and other distributions paid to us by Zhongzhi Pharmaceutical in turn depends to a certain extent on the service fees paid to Zhongzhi Pharmaceutical from Zhongzhi Herb Pieces. However, there are restrictions under PRC laws for the payment of dividends to us by Zhongzhi Pharmaceutical. For instance, the relevant PRC laws and regulations only permit Zhongzhi Pharmaceutical to pay dividends out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Also, under the PRC laws and regulations, Zhongzhi Pharmaceutical is required to set aside at least 10% of its after-tax profits based on PRC accounting standards each year to fund a statutory reserve until the

accumulated amount of such reserve has exceeded 50% of its registered capital. This reserve is not distributable as dividends. Consequently, Zhongzhi Pharmaceutical is subject to limits in its ability to transfer a portion of its net assets to us or any of our other subsidiaries in the form of dividends, loans or advances. For further details, please refer to the paragraph headed "Regulation — Restrictions relating to dividend distribution" in this [REDACTED].

In addition, all the directors and senior management staff of Zhongzhi Herb Pieces are to be nominated by Zhongzhi Pharmaceutical. Through its supervision and control over the selection of the directors and senior management of Zhongzhi Herb Pieces, Zhongzhi Pharmaceutical is able to effectively manage the business, financial and operating activities of Zhongzhi Herb Pieces so as to obtain benefits from its activities and to ensure due implementation of the Contractual Arrangements. The Contractual Arrangements enable Zhongzhi Pharmaceutical to, if and when permitted by the PRC laws and regulations, acquire the equity interests in Zhongzhi Herb Pieces in accordance with such laws and regulations. The Contractual Arrangements also enable Zhongzhi Pharmaceutical to, if and when permitted by PRC laws and regulations, purchase all or any of the intellectual properties that Zhongzhi Herb Pieces has. Our Directors are of the view that the Contractual Arrangements enable our Group to be managed coherently with the power to govern the business, financial and operating activities of Zhongzhi Herb Pieces for the benefit of our Group as a whole. Based on the Contractual Arrangements, taken as a whole, our Directors consider that, notwithstanding the lack of equity ownership in Zhongzhi Herb Pieces, our Group controls Zhongzhi Herb Pieces in substance. On this basis, Zhongzhi Herb Pieces is a consolidated affiliate of the Company and our Group is regarded as a continuing entity resulting from these Contractual Arrangements such that the financial position and operating results of Zhongzhi Herb Pieces are consolidated into our Group's consolidated financial statements.

Each of the Operation Services Agreement, Call Option Agreement, Power of Attorney and Exclusive Intellectual Property Purchase Agreement is effective from the date of its signing for ten years, which shall be unconditionally renewed at the request of Zhongzhi Pharmaceutical for ten years and for an indefinite number of successive ten years thereafter, whereas the Equity Pledge Agreement shall remain effective until the contractual obligations of the Registered Shareholders and Zhongzhi Herb Pieces under the Contractual Arrangements have been fully performed or the Contractual Arrangements have been terminated. The length of the term of the aforesaid agreements was a commercial decision of the parties determined on arm's length basis for the benefit of our Company to ensure Zhongzhi Pharmaceutical can exercise its rights over Zhongzhi Herb Pieces for a long period. Our Board is of the view that such term in effect means the relevant agreements shall continue perpetually unless early terminated by Zhongzhi Pharmaceutical, please refer to the right of termination of Zhongzhi Pharmaceutical under the paragraph headed "Termination" in this section.

Details of the Contractual Arrangements

1. ***Operation Services Agreement***

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the Operation Services Agreement, which provides, among others, that:

(i) Zhongzhi Pharmaceutical was engaged exclusively to provide Zhongzhi Herb Pieces with management and consultancy services, namely strategic consultancy services, advisory services on procurement, production and marketing, human resources services, tax and financial management services, information system services, internal control services, technology and other operational support services as required by Zhongzhi Herb Pieces from time to time. Zhongzhi Herb Pieces shall strictly adopt and follow the advices and decisions made by Zhongzhi Pharmaceutical and shall not raise objection to the same;

(ii) unless prior written consent of Zhongzhi Pharmaceutical has been obtained, Zhongzhi Herb Pieces shall not directly or indirectly accept services provided by any third party or establish cooperative relationship with any third party in respect of the services to be provided by Zhongzhi Pharmaceutical under the Operation Services Agreement;

(iii) unless prior written consent of Zhongzhi Pharmaceutical has been obtained, Zhongzhi Herb Pieces and the Registered Shareholders shall not carry out any acts which may affect the assets, business operation, management and other aspects of Zhongzhi Herb Pieces (for example Zhongzhi Herb Pieces shall not without the prior written consent of Zhongzhi Pharmaceutical, distribute dividend or make any kind of distribution, or remove or change any of its directors or any senior management);

(iv) Zhongzhi Herb Pieces shall pay service fees on an annual basis to Zhongzhi Pharmaceutical for the services provided by Zhongzhi Pharmaceutical under the Operation Services Agreement. The amount of fees payable by Zhongzhi Herb Pieces shall be calculated in accordance with the PRC accounting principles, which shall be the revenue of Zhongzhi Herb Pieces after deducting, *inter alia,* all the expenses (including but not limited to the operation cost, depreciation, tax and other expenses and costs) and reserve fund. Our PRC Legal Advisors have advised that there are no PRC laws or regulations expressly prohibiting Zhongzhi Herb Pieces from making service fee payments to Zhongzhi Pharmaceutical. Zhongzhi Herb Pieces, as a limited liability company, has property rights to deal with its assets accumulated throughout its business operation. Thus, we and our PRC Legal Advisors believe that, the service fee payment arrangement under the Operation Services Agreement is valid and legal, and is not prohibited under the relevant PRC laws and regulations.

The Operation Services Agreement is effective from the date of its signing for ten years, which shall be unconditionally renewed at the request of Zhongzhi Pharmaceutical for ten years and for an indefinite number of successive ten years thereafter.

2. *Call Option Agreement*

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the Call Option Agreement, pursuant to which the Registered Shareholders jointly and severally granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical, to purchase all or any part of their equity interests in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price and to the extent permitted by the applicable PRC laws and regulations. Therefore, if Zhongzhi Pharmaceutical exercises this option, all or any part of the equity interest of Zhongzhi Herb Pieces would be transferred to Zhongzhi Pharmaceutical and the benefits and equity ownership would flow to our Company and our Shareholders.

When Zhongzhi Pharmaceutical exercises this option to purchase any equity interest owned by any of the Registered Shareholders in Zhongzhi Herb Pieces, the Registered Shareholder(s) should procure Zhongzhi Herb Pieces to convene a shareholders' meeting to approve the transfer within three days after receiving notice from Zhongzhi Pharmaceutical for exercising the option. The selling Registered Shareholder(s) shall return any consideration received from the equity transfer occurred after the exercise of this option to Zhongzhi Pharmaceutical after the deduction of their actual amount of investment in Zhongzhi Herb Pieces.

Pursuant to this Call Option Agreement, in order to prevent the disposal of the assets of Zhongzhi Herb Pieces to the Registered Shareholders or any third party, Zhongzhi Herb Pieces shall not, and the Registered Shareholders shall not cause Zhongzhi Herb Pieces to, among others, (i) sell, transfer, mortgage or dispose of any assets held by Zhongzhi Herb Pieces; (ii) increase or reduce the registered capital or otherwise alter the capital structure of Zhongzhi Herb Pieces; (iii) enter into any merger or otherwise make any acquisition or investment; (iv) enter into any material contract (i.e. a contract involving the sum of over RMB100,000) other than in the ordinary course of business; (v) provide any loan or guarantee in any form to any third party; (vi) permit Zhongzhi Herb Pieces to incur any debt other than in the ordinary course of business; or (vii) request for or approve any of distribution of dividend or profit to the Registered Shareholders, without the prior written consent of Zhongzhi Pharmaceutical.

The Call Option Agreement is effective from the date of its signing for ten years, which shall be unconditionally renewed at the request of Zhongzhi Pharmaceutical for ten years and for an indefinite number of successive ten years thereafter.

The Call Option Agreement enables Zhongzhi Pharmaceutical to unwind the Contractual Arrangements as soon as the relevant PRC laws and regulations allow foreign investment in relation to the business of Zhongzhi Herb Pieces.

3. *Equity Pledge Agreement*

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the Equity Pledge Agreement, pursuant to which the Registered Shareholders jointly and severally pledged all their respective equity interests in Zhongzhi Herb Pieces (together with the rights derived therefrom) in favour of Zhongzhi Pharmaceutical as security for the performance of all the contractual obligations of Zhongzhi Herb Pieces and the Registered Shareholders under the Operation Services Agreement, the Call Option Agreement, the Power of Attorney and the Exclusive Intellectual Property Purchase Agreement.

Under the Equity Pledge Agreement, without the prior written consent of Zhongzhi Pharmaceutical, the Registered Shareholders shall not transfer, create or permit the subsistence of any encumbrance over the pledged equity interests in Zhongzhi Herb Pieces. Our Directors believe that the Equity Pledge Agreement can effectively protect the interests of our Group under the Contractual Arrangements.

The Equity Pledge Agreement is effective after the pledges have been registered in Zhongzhi Herb Pieces's register of members and registered with relevant administration for industry and commerce, and the same will remain effective until the contractual obligations of the Registered Shareholders and Zhongzhi Herb Pieces under the Contractual Arrangements have been fully performed or the Contractual Arrangements have been terminated.

The pledge was registered on 12 November 2014 with the Zhongshan Administration for Industry and Commerce*(中山市工商行政管理局) and our PRC Legal Advisors confirmed that the Equity Pledge Agreement has been duly registered with the relevant PRC legal authority pursuant to the PRC laws and regulations.

4. *Power of Attorney*

On 31 August 2014, the Registered Shareholders executed the Power of Attorney, pursuant to which, among others, the Registered Shareholders jointly and severally and irrevocably appointed Zhongzhi Pharmaceutical as their attorney to exercise the shareholders' rights in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical itself or through its nominee(s). The said shareholders' rights include but not limited to the rights to exercise voting rights in shareholders' meeting, to sign minutes of the shareholders' meetings, to file documents with the relevant government authorities, and to appoint directors and supervisors.

The Power of Attorney is effective from the date of its signing for ten years, which shall be unconditionally renewed at the request of Zhongzhi Pharmaceutical for ten years and for an indefinite number of successive ten years thereafter.

5. ***Exclusive Intellectual Property Purchase Agreement***

On 31 August 2014, Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders entered into the Exclusive Intellectual Property Purchase Agreement, pursuant to which Zhongzhi Herb Pieces and the Registered Shareholders jointly and severally granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any of the intellectual property that Zhongzhi Herb Pieces has by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price and to the extent permitted by the applicable PRC laws and regulations.

Zhongzhi Pharmaceutical shall have absolute discretion as to when and in what manner to exercise the option to purchase the intellectual properties of Zhongzhi Herb Pieces permitted by the PRC laws and regulations.

The Exclusive Intellectual Property Purchase Agreement is effective from the date of its signing for ten years, which shall be unconditionally renewed at the request of Zhongzhi Pharmaceutical for ten years and for an indefinite number of successive ten years thereafter.

Dispute Resolution

Each of the Contractual Arrangements contains a dispute resolution provision. Pursuant to such provision, any dispute arising from the interpretation and implementation of the Contractual Arrangements between the parties shall first be resolved through negotiation, failing which any party may submit the said dispute to the South China International Economic and Trade Arbitration Commission (the "**Commission**") with a view to resolving the dispute through arbitration in accordance with the arbitration rules of the Commission.

The arbitration shall be conducted in Zhongshan and the arbitral award shall be final and conclusive and binding on all parties. The Commission may award remedies over the equity interests or land or other assets of Zhongzhi Herb Pieces, make injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Zhongzhi Herb Pieces. Also, the courts of Hong Kong, the Cayman Islands and the PRC (being the place of incorporation of Zhongzhi Herb Pieces) also have jurisdiction to grant interim remedies.

However, our PRC Legal Advisors are of the opinion that the Commission may not be able to make injunctive relief or winding up orders according to the PRC laws and arbitration rules. Notwithstanding the aforesaid, the parties can apply to the PRC court for interim remedies including asset preservation. Also, the orders or remedies granted by overseas court (such as Hong Kong and Cayman Islands) may not be recognisable or enforceable in the PRC. The uncertainty of enforcement does not affect the validity and legality of the remaining provisions of the dispute resolution clauses and other provisions in the Contractual Arrangements.

Succession, Bankruptcy and Divorce

Pursuant to the Contractual Arrangements, in the event of the death, bankruptcy and divorce of the Registered Shareholders, the Contractual Arrangements shall continue to be binding on the Registered Shareholders and their successors (as the case may be). The Registered Shareholders agree that the Contractual Arrangements shall prevail over their respective wills, divorce agreements, debt arrangements and other legal instruments in any forms entered into by them, unless prior written consent of Zhongzhi Pharmaceutical is obtained. Accordingly, appropriate arrangements have been made to protect our Company's interest in the event of death, bankruptcy, divorce of the Registered Shareholders to avoid any practical difficulties in enforcing the Contractual Arrangements.

The Contractual Arrangements do not specify the identity of successors to the Registered Shareholders, under the succession law of the PRC, the statutory successors include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents and any breach by the successors would be deemed to be a breach of the Contractual Arrangements. In case of a breach, Zhongzhi Pharmaceutical can enforce its rights against the successors.

Therefore, our PRC Legal Advisors are of the view that (i) the Contractual Arrangements have given sufficient protection to our Group even in the event of death of the Registered Shareholders; and (ii) the death of the Registered Shareholders would not affect the validity of the Contractual Arrangements, and Zhongzhi Pharmaceutical can enforce its right under the Contractual Arrangements against the successors of the Registered Shareholders.

Conflicts of Interests

We have implemented measures to protect against the potential conflicts of interest between our Group and the Registered Shareholders. Pursuant to the Operation Services Agreement, the Registered Shareholders have undertaken that they will cause Zhongzhi Herb Pieces to strictly adopt and follow the advices and decisions made by Zhongzhi Pharmaceutical and will not raise objection to the same. If there is any potential conflict of interests between the Registered Shareholders and Zhongzhi Pharmaceutical, especially when the Registered Shareholders are also the directors or senior management of Zhongzhi Pharmaceutical, the Registered Shareholders shall protect, and shall not harm the interests of Zhongzhi Pharmaceutical. Under the Call Option Agreement, the Registered Shareholders granted Zhongzhi Pharmaceutical an irrevocable and exclusive option to purchase all or any part of the equity interests in Zhongzhi Herb Pieces at the lowest price and to the extent permitted by the applicable PRC laws and regulations. Furthermore, under the Power of Attorney executed by the Registered Shareholders, Zhongzhi Pharmaceutical was irrevocably appointed as the attorney of the Registered Shareholders to exercise the shareholders' rights in Zhongzhi Herb Pieces on behalf of the Registered Shareholders. As a result, we have minimised the Registered Shareholders' influence on the business operations of Zhongzhi Herb Pieces.

Based on the above, our Directors are of the view that the measures we have adopted are sufficient to mitigate the risks associated with the potential conflicts of interest between the Group and the Registered Shareholders and such measures are sufficient to protect our Group's interest in Zhongzhi Herb Pieces.

Loss exposure

Pursuant to the Operation Services Agreement, Zhongzhi Pharmaceutical is exposed to the operation risk of Zhongzhi Herb Pieces and shall provide financial support to Zhongzhi Herb Pieces. As our Group (i) conducts part of its businesses in the PRC through Zhongzhi Herb Pieces; and (ii) Zhongzhi Herb Pieces's financial condition and results of operations are consolidated into our Group's financial condition and results of operations under the applicable accounting principles, our Company's business, financial condition and results of operations would be adversely affected if Zhongzhi Herb Pieces suffers losses. Notwithstanding the aforesaid exposure of losses faced by Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it.

Moreover, the provisions in the Contractual Arrangements are tailored so as to limit, to the greatest extent possible, the potential adverse effect on Zhongzhi Pharmaceutical and our Company resulting from any loss suffered by Zhongzhi Herb Pieces. For instance, according to the Call Option Agreement, Zhongzhi Herb Pieces shall not, and the Registered Shareholders shall not cause Zhongzhi Herb Pieces to sell, transfer, mortgage or dispose of any assets held by Zhongzhi Herb Pieces.

In addition, under the Operation Services Agreement, the prior written consent of Zhongzhi Pharmaceutical shall be obtained in relation to the removal or change of directors or senior management of Zhongzhi Herb Pieces. Zhongzhi Herb Pieces and the Registered Shareholders shall cause those directors and supervisors to resign if Zhongzhi Pharmaceutical shall determine so and the directors of Zhongzhi Herb Pieces appointed by Zhongzhi Pharmaceutical can only be removed at the instruction of Zhongzhi Pharmaceutical. Zhongzhi Pharmaceutical has control over the dividend and other distributions to the Registered Shareholders, the Registered Shareholders and Zhongzhi Herb Pieces have undertaken not to make any distribution without the prior written consent of Zhongzhi Pharmaceutical. Zhongzhi Pharmaceutical also has the right to periodically receive the financial statements of Zhongzhi Herb Pieces and the financial results of Zhongzhi Herb Pieces can be consolidated into our Group's financial information as if it was our Group's subsidiary.

Liquidation

According to the Operation Services Agreement, Zhongzhi Herb Pieces undertakes to appoint a committee designated by Zhongzhi Pharmaceutical as the liquidation committee upon the winding up of Zhongzhi Herb Pieces to manage its assets. Further, as stated in the Call Option Agreement, in the event of liquidation, the Registered Shareholders shall ensure all of the remaining assets (after settlement of the liquidation costs, salary of staff, tax, social insurance and debt) of Zhongzhi

Herb Pieces shall be transferred to Zhongzhi Pharmaceutical or its nominee(s) at the lowest price permitted by the PRC laws and regulations. If the Registered Shareholders receive any payment as a result of the liquidation, they shall return in full such payment to Zhongzhi Pharmaceutical.

Termination

Each of the Operation Services Agreement, Call Option Agreement, Power of Attorney and Exclusive Intellectual Property Purchase Agreement provides that Zhongzhi Pharmaceutical can early terminate the agreement by serving prior notice on the others, but Zhongzhi Herb Pieces and the Registered Shareholders do not have such right of early termination. Also, the Operation Services Agreement, Call Option Agreement and Power of Attorney shall be automatically terminated if, *inter alia*, the PRC laws and regulations so require or Zhongzhi Pharmaceutical (or its nominee(s)) has acquired all the equity interest of Zhongzhi Herb Pieces subject to the PRC laws and regulations; whereas the Exclusive Intellectual Property Purchase Agreement shall be automatically terminated when all the intellectual property rights of Zhongzhi Herb Pieces have been transferred to Zhongzhi Pharmaceutical (whichever is earlier).

The Equity Pledge Agreement does not contain the aforesaid termination clauses. However, the Equity Pledge Agreement provides that the same shall remain effective until all the contractual obligations of the Registered Shareholders and Zhongzhi Herb Pieces under the Contractual Arrangements have been fully performed and all secured indebtedness under the Contractual Arrangements have been settled or the Contractual Arrangements have been terminated.

Insurance

The Company does not maintain an insurance policy to cover the risks relating to the Contractual Arrangements. Please refer to the paragraph headed "Risk Factors — Risks relating to our Contractual Arrangements" in this [REDACTED].

LEGALITY OF THE CONTRACTUAL ARRANGEMENTS

PRC Legal Opinions

Our PRC Legal Advisors, after taking reasonable actions and steps to reach its legal conclusions, are of the opinion that:

(a) Zhongzhi Pharmaceutical and Zhongzhi Herb Pieces are duly established and validly existing under the PRC laws, and has obtained or completed all requisite approvals, permits, registrations or filings for carrying on their respective business operations as required by the applicable PRC laws, regulations and rules;

(b) the Contractual Arrangements as a whole and each of the contracts comprising the Contractual Arrangements are legal, valid and binding on the parties thereto, and do not, individually or collectively, constitute a breach of any PRC laws and regulations and will

not be deemed invalid or ineffective under those laws and regulations; in particular, the Contractual Arrangements do not violate the provisions of the PRC Contract Law including "concealing illegal intentions with a lawful form," the General Principles of the PRC Civil Law and other applicable PRC laws and regulations;

(c) each of the contracts comprising the Contractual Arrangements does not violate any provisions of the articles of association of Zhongzhi Pharmaceutical and Zhongzhi Herb Pieces;

(d) the Contractual Arrangements do not require any approvals from or registration with the PRC government, except that the Equity Pledge Agreement shall be registered with the relevant Administration of Industry and Commerce, and such registration has been completed; and

(e) the Contractual Arrangements are in full compliance with and enforceable under the applicable PRC laws and regulations, except that the Contractual Arrangements provide that the Commission may award remedies over the equity interest or land or other assets of Zhongzhi Herb Pieces or make injunctive relief against Zhongzhi Herb Pieces, and that courts of competent jurisdictions are empowered to grant interim remedies in support of the arbitration pending the formation of an arbitral tribunal. Under the PRC laws, an arbitral body has no power to grant injunctive relief and may not directly issue a provisional or final liquidation order for the purpose of protecting assets of or equity interests in Zhongzhi Herb Pieces in case of disputes. In addition, interim remedies or enforcement orders granted by overseas courts may not be recognisable or enforceable in the PRC.

In preparation for the [REDACTED], our PRC Legal Advisors and the Sole Sponsor have interviewed a competent officer in the GFDA, during which the officer confirmed that it is not necessary to seek their approval before entering into the Contractual Arrangements. Even though no positive regulatory assurance has been obtained from relevant PRC regulatory authorities with respect to the use of the Contractual Arrangements in the pharmaceutical industry, and it is impracticable to obtain such assurance, no relevant PRC regulatory authorities have ever issued any regulations, rules or notices to prohibit the use of such Contractual Arrangements in the pharmaceutical industry.

Company's confirmation

As at the Latest Practicable Date, our Company has not encountered any interference or encumbrance from any PRC governing bodies in operating our businesses through Zhongzhi Herb Pieces under the Contractual Arrangements.

In light of the opinion from the PRC Legal Advisors, the interview with a competent officer of the GFDA and there being no interference from the PRC government regarding the Contractual Arrangements, our Directors are of the view that the Contractual Arrangements which confer

significant control and economic benefits from Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical is enforceable under the relevant PRC laws and regulations and the Contractual Arrangements are narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations.

Given that the Contractual Arrangements will constitute continuing connected transactions of our Company, a waiver has been sought from and has been granted by the Stock Exchange, details of which are disclosed in the "Continuing Connected Transactions" section in this [REDACTED].

Sole Sponsor's view

The Sole Sponsor is of the view that the Contractual Arrangements adopted by our Group have complied with the requirements set out in the listing decision (HKEx-LD43-3) issued by the Stock Exchange in 2005 and updated in November 2011, August 2012, November 2012, December 2012, November 2013 and April 2014, respectively.

The Draft Foreign Investment Law and the Explanatory Notes

On 19 January 2015, MOFCOM released the Draft Foreign Investment Law and the Explanatory Notes for public consultation. The major changes that the Draft Foreign Investment Law introduces to the foreign investment regime in the PRC are as follows:

(i) The definitions of "foreign investors" and "foreign investment"

The Draft Foreign Investment Law introduces the concept of "control" and "actual control". Under Article 18 of the Draft Foreign Investment Law, the term "control" means that any of the following conditions is met in respect of an enterprise:

1. holding, directly or indirectly, more than 50% of shares, equity, share of property, voting power or other similar equities in the enterprise;

2. holding, directly or indirectly, less than 50% of shares, equity, share of property, voting power or other similar equities in the enterprise, but are under any of the following circumstances: (a) being entitled to, directly or indirectly, more than half of the members of the enterprise's board of directors or the similar decision-making body; (b) being capable of ensuring that its nominated personnel can occupy more than 50% of seats of the enterprise's board of directors or the similar decision-making body; and (c) the voting power it holds is sufficient to have significant influence on the resolutions of the meetings of shareholders, general assembly of shareholders, board of directors or other decision-making body;

3. exerting decisive influence on the enterprise's management, finance, human resources or technologies etc by contracts, trust or other ways.

In respect of "actual control", the Draft Foreign Investment Law looks at the identity of the ultimate natural person or enterprise that controls the foreign-invested enterprise. "Actual control" refers to the power or position to control an enterprise through investment arrangements, contractual arrangements or other rights and decision-making arrangements. Article 19 of the Draft Foreign Investment Law defined "actual controllers" as the natural persons or enterprises that directly or indirectly control foreign investors or foreign-invested enterprises.

If the concept of "actual control" is applied in assessing whether the Contractual Arrangements will be regarded as a domestic investment, our PRC Legal Advisors are of the view that our Company is likely to be deemed as controlled by Chinese investors based on our Company's shareholding structure, where Mr. Lai, being a Chinese investor, indirectly held approximately 80.52% Shares through Crystal Talent as at the Latest Practicable Date and approximately 60.39% Shares after completion of the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme). As such, the Contractual Arrangements are likely to be deemed as a domestic investment. Mr. Lai may submit written supporting materials to the foreign investment regulatory authorities of the State Council to apply for deeming our Company's investment in Zhongzhi Herb Pieces as an investment made by a Chinese investor under Article 12 and Article 45 of the Draft Foreign Investment Law. The Contractual Arrangements are likely to be permitted to continue. We will unwind the Contractual Arrangements and acquire Zhongzhi Herb Pieces or the production of decoction pieces business it is carrying on when the applicable PRC laws and regulations allow.

The Draft Foreign Investment Law clearly states that contractual arrangement is a form of foreign investments which will be subject to its governance upon its promulgation if a foreign-invested enterprise under contractual arrangements is controlled by foreign investors.

(ii) The Negative List — restrictions on foreign investment

The Draft Foreign Investment Law stipulates restrictions of foreign investment in certain industry sectors. The Negative List classified the relevant prohibited and restricted industries into the Catalogue of Prohibitions and the Catalogue of Restrictions respectively.

Foreign investors are not allowed to invest in any sector set out in the Catalogue of Prohibitions. Where any foreign investor directly or indirectly holds shares, equities, properties or other interests or voting rights in any domestic enterprise, such domestic enterprise is not allowed to invest in any sector set out in the Catalogue of Prohibitions, unless otherwise specified by the State Council.

Foreign investors are allowed to invest in sector set out in the Catalogue of Restrictions, provided that the foreign investors are required to fulfill certain conditions and apply for permission before making such investment.

For foreign investment outside the Negative List, no application for permission or filing is required save and except the submission of information report.

(iii) Reporting system for foreign investment

Under the Draft Foreign Investment Law, foreign investors or foreign-invested enterprises are required to fulfill reporting obligations in relation to their investments and operations, regardless of whether it is listed on the Negative List or not. There are three categories of information reporting, namely reporting on foreign investment matters, reporting on changes in foreign investment matters and periodic reports.

ACCOUNTING ASPECTS OF THE CONTRACTUAL ARRANGEMENTS

Consolidation of financial results of Zhongzhi Herb Pieces

According to the International Financial Reporting Standards 10 (Consolidated Financial Statements), a subsidiary is an entity that is controlled by another entity (known as the parent). An investor controls an investee when it 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. Although our Company does not directly or indirectly own Zhongzhi Herb Pieces, the Contractual Arrangements as mentioned above enabled our Company to exercise control over Zhongzhi Herb Pieces during the Track Record Period.

Under the Operation Services Agreement entered into by and among Zhongzhi Pharmaceutical and Zhongzhi Herb Pieces, it was agreed that, in consideration of the services provided by Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces will pay yearly service fees to Zhongzhi Pharmaceutical. The amount of service fees and calculation method shall be determined by Zhongzhi Pharmaceutical at its sole discretion for the best interests of Zhongzhi Pharmaceutical. Under the Operation Services Agreement, Zhongzhi Pharmaceutical may adjust the service fees, at its sole discretion, based on the principle of maintaining the balance of profit and loss for Zhongzhi Herb Pieces so as to allow Zhongzhi Herb Pieces to retain sufficient working capital to carry out its business. Zhongzhi Herb Pieces shall deliver to Zhongzhi Pharmaceutical its management documents and operating data at the request of Zhongzhi Pharmaceutical. Accordingly, Zhongzhi Pharmaceutical has the ability, at its sole discretion, to extract all economic benefits of Zhongzhi Herb Pieces through the Operation Services Agreement.

In addition, under the Call Option Agreement among the parties, Zhongzhi Pharmaceutical has absolute control over the distribution of dividends or any other form of profit to the Registered Shareholders as Zhongzhi Pharmaceutical's prior written consent is required in this respect.

Under the Power of Attorney, Zhongzhi Pharmaceutical was irrevocably and unconditionally appointed by the Registered Shareholders to be their attorney to exercise the shareholders' rights in Zhongzhi Herb Pieces including the rights to exercise voting rights in shareholders' meetings, to sign minutes of the shareholders' meetings, to file documents with the relevant government authorities, to appoint directors and supervisors.

Under the Equity Pledge Agreement, without the prior written consent of Zhongzhi Pharmaceutical, the Registered Shareholders shall not transfer, create or permit the subsistence of any encumbrance over the pledged equity interests in Zhongzhi Herb Pieces.

Pursuant to the Exclusive Intellectual Property Purchase Agreement, Zhongzhi Pharmaceutical was granted an option to purchase all or any of the intellectual property that Zhongzhi Herb Pieces has at the lowest price and to the extent permitted by the PRC laws and regulations.

As a result of the operation of the Contractual Arrangements described above, our Company has obtained control of Zhongzhi Herb Pieces through Zhongzhi Pharmaceutical and, under our Company's sole discretion, can receive all economic benefits and returns generated by Zhongzhi Herb Pieces. Accordingly, Zhongzhi Herb Pieces's results of operation, assets and liabilities, and cash flows are consolidated into our Company's financial statements in accordance with the relevant accounting standards. For each of the three years ended 31 December 2014, revenue from our own-branded decoction pieces (manufactured by Zhongzhi Herb Pieces) amounted to approximately RMB59.8 million, RMB105.9 million and RMB196.2 million, representing approximately 14.6%, 21.9% and 32.9% of our total revenue, respectively. The remaining portion of our total revenue was contributed by our other PRC subsidiaries, which are engaged in the production and sale of Chinese patent medicines as well as the operation of our chain pharmacies.

The basis of consolidating the financial results of Zhongzhi Herb Pieces is disclosed in note 2.2 to the Accountants' Report set out in Appendix I to this [REDACTED].

Tax impact of the Contractual Arrangements

Pursuant to the Operation Services Agreement, Zhongzhi Herb Pieces will transfer all its net profit as payment of yearly service fees to Zhongzhi Pharmaceutical. As a result, the Contractual Arrangements will increase our income tax expenses as the aforesaid yearly service fees will be treated as revenue of Zhongzhi Pharmaceutical and subject to PRC EIT at a rate of 25%. If the Contractual Arrangements were effective as at 1 January 2012, our income tax expenses would have increased by approximately RMB1.1 million, RMB2.4 million and RMB2.9 million for each of the three years ended 31 December 2014, respectively.

The potential impact of the Draft Foreign Investment Law in relation to contractual arrangements generally

Pursuant to the Draft Foreign Investment Law, if a domestic enterprise under the contractual arrangements is controlled by Chinese nationals, such domestic enterprise may be treated as a Chinese investor and the contractual arrangements may be regarded as legal. On the contrary, if the domestic enterprise is controlled by foreign investors, such domestic enterprise will be treated as a foreign investor or foreign-invested enterprise, and the operation of such domestic enterprise may be regarded as illegal if the domestic enterprise is in an industry sector which is on the Negative List and the domestic enterprise does not apply for and obtain the necessary permission.

Notwithstanding the Explanatory Notes do not provide a clear direction in dealing with contractual arrangements existing before the Draft Foreign Investment Law becoming effective, which is still pending for consultation of public views and further study, the Explanatory Notes is contemplating three possible approaches in dealing with foreign-invested enterprises with existing contractual arrangements and conducts business in an industry falling in the Negative List:

(a) to make a declaration to the competent authority that the actual control vested with Chinese investors, then the contractual arrangements may be retained for its operation;

(b) to apply to the competent authority for certification of its actual control vested with Chinese investors and upon verification by competent authority, the contractual arrangements may be retained for its operation;

(c) to apply to the competent authority for permission and the competent authority together with the relevant departments shall make a decision after taking into account the actual control of the foreign-invested enterprise and other factors.

The potential impact to our Company in the worst scenario that our Contractual Arrangements is not treated as a domestic investment

Under the Draft Foreign Investment Law, the definition of "foreign investment" now expressly includes control by other means in addition to equity ownership. If the Draft Foreign Investment Law is promulgated in the current draft form, our Contractual Arrangements may be treated as a foreign investment. The potential impacts to our Group's business and financial condition in the worst scenario that our Contractual Arrangements is not treated as a domestic investment would be as follows:

Impact on our business

- *If the production of decoction pieces is no longer in the Negative List*

If the production of decoction pieces is no longer in the Negative List, our Group can legally operate the business of production of decoction pieces. Zhongzhi Pharmaceutical will unwind the Contractual Arrangements in accordance with the Call Option Agreement and to acquire Zhongzhi Herb Pieces or the production of decoction pieces business it is carrying. When Zhongzhi Pharmaceutical or its nominee(s) exercises the option and acquire the entire equity interest in Zhongzhi Herb Pieces, the Contractual Arrangements will be terminated. For details of the procedures to exercise the option, please refer to the paragraph headed "Details of the Contractual Arrangements — Call Option Agreement" in this section.

- *If the production of decoction pieces is in the Negative List*

If the production of decoction pieces is in the Negative List, the Contractual Arrangements of Zhongzhi Pharmaceutical will be viewed as prohibited foreign investment. If the Draft Foreign Investment Law is refined and deviates from the current content of the Explanatory Notes, depending on the treatment of existing contractual arrangements, the Contractual Arrangements may be regarded as invalid and illegal. As a result, our Group would not be able to manufacture decoction pieces through the Contractual Arrangements with Zhongzhi Herb Pieces.

Considering that a number of existing conglomerates are operating under contractual arrangements and some of which have obtained listing status abroad, our PRC Legal Advisors are of the view that it is unlikely, if the Draft Foreign Investment Law is promulgated, the relevant authorities will take retrospective effect to require the relevant enterprises to remove the contractual arrangements. In future, the PRC government is likely to take a relatively cautious attitude towards the aspects of supervision as well as the enactment, and make decisions according to different situations in practice, which has already been reflected in the Explanatory Notes. Our PRC Legal Advisors are of the opinion that the concept of "actual control" will likely be the ultimate standard to solve the issues of the contractual arrangements. In gist, pursuant to the "actual control" standard, enterprises controlled by Chinese investors are regarded as domestic enterprises and will not be subject to the Negative

List, which means that these enterprises can continue their operation and when they expand the business into new areas notwithstanding such enterprises have foreign investors as shareholders. On the contrary, enterprises controlled by foreign investors will be administered as foreign-invested enterprises, and will be handled according to the special administrative measures in the Negative List.

Impact on our financial position

If the Contractual Arrangements become invalid,

- we may lose our rights to direct the activities of Zhongzhi Herb Pieces and our rights to receive its economic benefits.
- the financial results of Zhongzhi Herb Pieces will not be consolidated into our Group's financial results.
- we would lose our income from the sales of our decoction pieces.
- we would have to derecognise the assets and liabilities of Zhongzhi Herb Pieces according to the relevant accounting standards. An investment loss would be recognised as a result of such derecognition.

For each of the three years ended 31 December 2014, total revenue from the sales of our own-branded traditional and modern decoction pieces amounted to approximately RMB59.8 million, RMB105.9 million and RMB196.2 million, representing approximately 14.6%, 21.9% and 32.9% of our total revenue, respectively. Excluding the retail sales of our own-branded traditional decoction pieces in our self-operated chain pharmacies, our revenue derived from the sales of our own-branded decoction pieces in the corresponding periods amounted to approximately RMB24.8 million, RMB67.8 million and RMB159.9 million, representing 6%, 14% and 26.8% of our total revenue, respectively. Gross profit derived from these sales were approximately RMB18.5 million, RMB51.9 million and RMB122 million in the corresponding periods.

For retail sales of traditional decoction pieces, if the Contractual Arrangements become invalid, we plan to purchase traditional decoction pieces from independent suppliers in order to maintain our product portfolio and market competitiveness of our self-operated chain pharmacies.

If the results related to sales of our modern decoction pieces and wholesales of our traditional decoction pieces have been excluded, our revenue for each of the three years ended 31 December 2014 would have been RMB385.2 million, RMB415 million and RMB435.7 million, respectively. Our net profit for the respective years would have been approximately RMB13.6 million, RMB20.9 million and RMB37.5 million. Accordingly, our Group's operating results would be materially and adversely affected.

As at 31 December 2014, the net asset value of Zhongzhi Herb Pieces amounted to approximately RMB10.2 million, of which approximately RMB8.8 million was the cost of investment of Zhongzhi Pharmaceutical in Zhongzhi Herb Pieces.

In the event that the Contractual Arrangements become invalid, we would have to derecognise the assets and liabilities of Zhongzhi Herb Pieces according to the relevant accounting standards. Based on the net asset value of Zhongzhi Herb Pieces as at 31 December 2014, we would recognise an investment loss for the Group.

To protect the interest of our Group, Mr. Lai has executed an indemnity to irrevocably indemnify our Group for losses arising from our Group's investment in Zhongzhi Herb Pieces to be incurred in connection with the compliance of the new foreign investment law or regulations (irrespective of whether in the same form and substance as the Draft Foreign Investment Law) to be promulgated and implemented.

Sustainability of our Group's business in the event that our manufacturing of decoction pieces is to be discontinued

In the event that the Contractual Arrangements become invalid, our Group's manufacturing of decoction pieces will be discontinued. Our Directors are of the view that our Group's business will remain sustainable given (i) our revenue derived from the sales of our own-branded traditional and modern decoction pieces only accounted for approximately 32.9% of our total revenue for the year ended 31 December 2014; (ii) our experienced management which is led by Mr. Lai who has over 30 years of experience in the pharmaceutical industry; (iii) our chain pharmacies which for the year ended 31 December 2014, had a revenue accounted for over 50% of our total revenue and had been established for over 10 years is the largest self-operated pharmaceutical chain in Zhongshan in terms of the number of pharmacies and revenue for the three consecutive years from 2012 to 2014; (iv) satisfactory future growth in the retail sales of Chinese medicines in the Guangdong province as forecasted by Ipsos; (v) the strong brand recognition of our core brands "Zeus (中智)" and "Liumian* (六棉牌)" for our Chinese patent medicines in the pharmaceutical industry; (vi) our extensive distribution network for Chinese patent medicines; (vii) our strong research and development capabilities allow us to maintain a pool of pipeline products under development and as at the Latest Practicable Date, we had obtained approvals on 25 types of Chinese patent medicines from the relevant government authorities for production but not yet been launched; and (viii) our plans to further expand our pharmaceutical chain and distribution network and that we will fully reallocate the net proceeds from the [REDACTED] related to modern decoction pieces to the (a) research and development of Chinese patent medicines; and (b) expansion of the production capacity of our existing Chinese patent medicines and those in our pipeline in the event that the Contractual Arrangements become invalid. For details, please refer to the section headed "Future plans and use of proceeds" in this [REDACTED]. In view of the above, the Sole Sponsor concurs with our Directors' view that our Group's business is sustainable in the event that the Contractual Arrangements have to be unwound and our manufacturing of decoction pieces is to be discontinued.

Potential measures to maintain control over and receive economic benefits from Zhongzhi Herb Pieces

As mentioned above, our PRC Legal Advisors are of the view that the Contractual Arrangements are likely to be deemed as a domestic investment if the Draft Foreign Investment Law were to become effective in its current form and content. To ensure the Contractual Arrangements to remain a domestic investment so that our Group can maintain control over Zhongzhi Herb Pieces and receive all economic benefits derived from Zhongzhi Herb Pieces, Mr. Lai has given an undertaking to our Company, and our Company has agreed with the Stock Exchange to enforce such undertaking to:

(a) continue to maintain his Chinese nationality and citizenship;

(b) remain as a beneficial owner of not less than 50% voting rights of our Company and otherwise maintain control for the purposes of the relevant foreign investment laws and related laws applicable to our Group in relation to domestic investment when they become effective; and

(c) obtain prior written consent of our Company as to the identity of the transferee(s) before Mr. Lai disposes of or transfers any of our Company's securities that he beneficially owns. Prior to any such disposal, transfer or other transactions which may result in Mr. Lai ceasing to have control of our Company for the purposes of the relevant foreign investment laws, Mr. Lai shall demonstrate to the satisfaction of our Company and the Stock Exchange that the Contractual Arrangements will remain a domestic investment for the purpose of the relevant foreign investment laws and related laws applicable to our Group in relation to domestic investment.

The aforesaid undertaking was made by Mr. Lai to ensure compliance with the relevant foreign investment laws and related laws applicable to our Group from time to time in connection with domestic investment. Such undertaking (a) shall remain effective as long as our Company is required to comply with the relevant foreign investment laws and related laws applicable to our Group in connection with domestic investment; and (b) shall only terminate subject to the approval of our Company and Mr. Lai demonstrating to the satisfaction of our Company and the Stock Exchange that our Group is no longer required to comply with the relevant foreign investment laws and related laws applicable to our Group in relation to domestic investment. Mr. Lai and his associates shall abstain from voting at the Board meeting resolving matters in relation to such undertaking.

Based on the view of our PRC Legal Advisors and the aforesaid undertaking given by Mr. Lai, our Directors and the Sole Sponsor are of the view that (i) the Contractual Arrangements are likely to be deemed as a domestic investment and to be permitted to continue; (ii) our Group can maintain control over Zhongzhi Herb Pieces and receive all economic benefits derived from Zhongzhi Herb Pieces; and (iii) the Draft Foreign Investment Law would have minimal impact on our Group' s business operations.

In respect of his interest in our Company, Mr. Lai has also given a non-disposal undertaking under Rule 10.07(1) of the Listing Rules as detailed in the paragraph headed "Underwriting — Undertakings to the Stock Exchange under the Listing Rules — Undertakings by our Controlling Shareholders" in this [REDACTED].

UNDERWRITING

[REDACTED] UNDERWRITERS

[REDACTED]

UNDERWRITING ARRANGEMENTS AND EXPENSES

[REDACTED]

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

UNDERWRITING

[REDACTED]

[REDACTED]

Undertakings to the Stock Exchange under the Listing Rules

Undertakings by us

[REDACTED]

Undertakings by our Controlling Shareholders

[REDACTED]

[REDACTED]

Undertakings pursuant to the [REDACTED] Underwriting Agreement

Undertakings by us

[REDACTED]

[REDACTED]

Undertakings by our Controlling Shareholders

[REDACTED]

UNDERWRITING

[REDACTED]

[REDACTED]

[REDACTED]

In connection with the [REDACTED], it is expected that our Company, our Controlling Shareholders and executive Directors will enter into the [REDACTED] Underwriting Agreement with, *inter alia*, the [REDACTED] and the [REDACTED] Underwriters, on terms and conditions that are substantially similar to the [REDACTED] Underwriting Agreement as described above and on the additional terms described below. Under the [REDACTED] Underwriting Agreement, the [REDACTED] Underwriters will, subject to certain conditions set out therein, severally agree to subscribe for or purchase or procure subscribers or purchasers to subscribe for the [REDACTED] Shares being offered pursuant to the [REDACTED].

Our Company will grant to the [REDACTED] Underwriters the [REDACTED], exercisable by the [REDACTED] on behalf of the [REDACTED] at any time from the [REDACTED] up to (and including) the date which as the 30th day after lodging applications under the [REDACTED], to require our Company to allot and issue up to an aggregate of [REDACTED] additional Shares representing [REDACTED] of the number of [REDACTED] initially offered under the [REDACTED], at the same price per Share under the [REDACTED] to cover over-allocations (if any) in the [REDACTED].

Commissions and expenses

The Underwriters will receive an underwriting commission at the rate of [REDACTED] of the aggregate [REDACTED] payable for the [REDACTED] (including the Shares to be issued pursuant to the [REDACTED], if any), out of which they will pay any sub-underwriting commissions. Furthermore, our Company agrees, at its discretion, to pay to the [REDACTED] a discretionary incentive fee of up to [REDACTED] of the aggregate [REDACTED] payable for the [REDACTED] (excluding the Shares to be issued pursuant to the [REDACTED], if any). The underwriting commission (not taking into account the aforesaid incentive fee), together with the Stock Exchange [REDACTED], the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the [REDACTED], is currently estimated to be approximately HK$[REDACTED] in aggregate (assuming the [REDACTED] is not exercised and based on an [REDACTED] of HK$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range of HK$[REDACTED] and HK$[REDACTED] per [REDACTED]) and is paid or payable by our Company.

UNDERWRITERS' INTERESTS IN OUR COMPANY

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 [REDACTED].

STRUCTURE AND CONDITIONS OF THE [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

[REDACTED]

HOW TO APPLY FOR THE [REDACTED]

[REDACTED]

[REDACTED]

The following is the text of a report, prepared for inclusion in this [REDACTED], received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the Appendix VI headed "Documents Delivered to the Registrar of Companies and Available for Inspection" to this [REDACTED], a copy of the accountants' report is available for inspection.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

30 June 2015

The Directors

Zhongzhi Pharmaceutical Holdings Limited
Guosen Securities (HK) Capital Company Limited

Dear Sirs,

We set out below our report on the financial information of Zhongzhi Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined statements of profit or loss, the combined statement of comprehensive income, the combined statement of changes in equity, and the combined statements of cash flows of the Group for each of the years ended 31 December 2012, 2013 and 2014 (the "Relevant Periods"), and the combined statement of financial position of the Group 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 of Section II below, for inclusion in this [REDACTED] of the Company dated 30 June 2015 (the "[REDACTED]") in connection with the [REDACTED].

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 September 2014. Pursuant to the group reorganisation as set out in the paragraph headed "History and Corporate Structure — Reorganisation" in the [REDACTED] (the "Reorganisation"), 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, as the Company has not been involved in any significant business transaction other than the Reorganisation described above.

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 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 combined financial statements of the Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards (the "IFRSs"), issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 31 December 2012, 2013 and 2014 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (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 IFRSs, 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 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group as at 31 December 2012, 2013 and 2014, and of the combined results and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

Combined Statements of Profit or Loss

		Year ended 31 December		
		2012	2013	2014
	Notes	RMB'000	RMB'000	RMB'000
REVENUE	5	410,052	482,805	595,565
Cost of sales		(221,365)	(243,430)	(275,290)
Gross profit		188,687	239,375	320,275
Other income and gains	5	7,370	5,383	6,528
Selling and distribution expenses		(121,904)	(142,326)	(148,747)
Administrative expenses		(35,258)	(38,881)	(50,196)
Other expenses		(11,152)	(15,364)	(12,048)
Finance costs	7	(4,294)	(1,384)	(1,002)
PROFIT BEFORE TAX	6	23,449	46,803	114,810
Income tax expense	10	(6,195)	(9,165)	(28,122)
PROFIT FOR THE YEAR		17,254	37,638	86,688
Attributable to owners of the parent		17,254	37,638	86,688

Combined Statements of Comprehensive Income

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
PROFIT FOR THE YEAR	17,254	37,638	86,688
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations	—	1	(1)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	17,254	37,639	86,687
Attributable to owners of the parent	17,254	37,639	86,687

Combined Statements of Financial Position

		As at 31 December		
		2012	2013	2014
	Notes	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	13	63,782	71,406	79,366
Prepayment for property, plant and equipment		1,908	883	2,100
Prepaid land lease payments	14	15,776	15,306	14,836
Goodwill	15	1,628	1,628	1,628
Other intangible assets	16	1,439	1,573	1,366
Available-for-sale investment	17	450	—	—
Deferred tax assets	26	3,966	5,534	4,976
Rental deposits		2,491	2,505	3,275
Total non-current assets		91,440	98,835	107,547
CURRENT ASSETS				
Prepaid land lease payment	14	470	470	470
Inventories	18	81,241	108,940	88,471
Trade and notes receivables	19	26,806	28,804	35,489
Prepayments, deposits and other receivables	20	4,620	7,748	7,943
Available-for-sale investments	17	10,000	25,000	—
Cash and cash equivalents	21	25,044	29,077	58,004
Total current assets		148,181	200,039	190,377
CURRENT LIABILITIES				
Trade payables	22	49,458	54,218	52,802
Other payables and accruals	23	57,759	75,856	60,805
Amount due to a shareholder	30(a)(i)	54	53	—
Amounts due to related parties	30(a)(ii)	—	—	8,786
Interest-bearing bank borrowings	24	25,000	16,000	15,000
Deferred income	25	2,485	1,921	6,019
Tax payable		4,781	9,718	20,219
Total current liabilities		139,537	157,766	163,631
NET CURRENT ASSETS		8,644	42,273	26,746
TOTAL ASSETS LESS CURRENT LIABILITIES		100,084	141,108	134,293

		As at 31 December		
		2012	2013	2014
	Notes	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES				
Deferred income	25	6,099	9,509	9,047
Deferred tax liabilities	26	1,414	1,389	4,349
Total non-current liabilities		7,513	10,898	13,396
Net assets		92,571	130,210	120,897
EQUITY				
Equity attributable to owners of the parent				
Issued capital	27	—	—	—
Reserves	28	92,571	130,210	120,897
Total equity		92,571	130,210	120,897

Combined Statements of Changes in Equity

	Issued capital	Merger reserve*	Statutory surplus reserve*	Share based payment*	Exchange fluctuation reserve*	Retained profits*	Total
	RMB'000	RMB'000 *Note 28(b)*	RMB'000 *Note 28(c)*	RMB'000 *Note 28(d)*	RMB'000	RMB'000	RMB'000
At 1 January 2012	—	20,800	2,748	—	—	35,689	59,237
Profit for the year	—	—	—	—	—	17,254	17,254
Total comprehensive income for the year	—	—	—	—	—	17,254	17,254
Contribution from shareholders	—	10,400	—	—	—	—	10,400
Equity-settled share arrangements	—	—	—	5,680	—	—	5,680
Transfer from retained profits	—	—	2,032	—	—	(2,032)	—
At 31 December 2012 and 1 January 2013	—	31,200	4,780	5,680	—	50,911	92,571
Profit for the year	—	—	—	—	—	37,638	37,638
Other comprehensive income for the year							
Exchange differences on translation of foreign operations	—	—	—	—	1	—	1
Total comprehensive income for the year	—	—	—	—	1	37,638	37,639
Transfer from retained profits	—	—	4,998	—	—	(4,998)	—
At 31 December 2013 and 1 January 2014	—	31,200	9,778	5,680	1	83,551	130,210
Profit for the year	—	—	—	—	—	86,688	86,688
Other comprehensive income for the year							
Exchange differences on translation of foreign operations	—	—	—	—	(1)	—	(1)
Total comprehensive income for the year	—	—	—	—	(1)	86,688	86,687
Transfer to retained profits	—	—	(3,775)	—	—	3,775	—
Dividends declared of Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. *(note 11)*	—	—	—	—	—	(96,000)	(96,000)
At 31 December 2014	—	31,200	6,003	5,680	—	78,014	120,897

* Included in reserves in the combined statements of financial position.

Combined Statements of Cash Flows

	Notes	Year ended 31 December 2012 RMB'000	2013 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		23,449	46,803	114,810
Adjustments for:				
Finance costs	7	4,294	1,384	1,002
Interest income	5	(708)	(667)	(898)
Loss/(gain) on disposal of items of property, plant and equipment	5, 6	291	(98)	70
Loss on disposal of intangible assets	6	—	—	216
Depreciation	6, 13	11,566	10,701	12,028
Recognition of prepaid land lease payments	6, 14	494	470	470
Amortisation of other intangible assets	6, 16	264	285	224
Government grants released	25	(6,049)	(2,956)	(4,095)
Loss on disposal of available-for-sale investment	6	—	99	—
Equity-settled share option expense	6	5,680	—	—
		39,281	56,021	123,827
(Increase)/decrease in inventories		(16,430)	(27,699)	20,469
Decrease/(increase) in trade and notes receivables		3,265	(2,319)	(7,387)
Decrease/(increase) in prepayments, deposits and other receivables		317	(3,128)	(195)
Increase in rental deposits		(581)	(14)	(770)
Increase/(decrease) in trade payables		2,313	4,760	(1,416)
Increase/(decrease) in other payables and accruals		25,548	17,381	(14,106)
Increase in amounts due to related parties	30	—	—	8,786
Increase in deferred income		2,981	5,802	6,531
Cash generated from operations		56,694	50,804	135,739
Income tax paid		(1,155)	(5,821)	(14,102)
Net cash flows from operating activities		55,539	44,983	121,637

	Notes	Year ended 31 December 2012 RMB'000	2013 RMB'000	2014 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of items of property, plant and equipment		(10,124)	(16,573)	(20,631)
Prepayment for purchase of property, plant and equipment		(1,867)	(883)	(1,219)
Proceeds from disposal of items of property, plant and equipment		323	1,290	278
Purchase of other intangible assets	16	(38)	(419)	(233)
Receipt of government grants		503	—	1,200
Proceeds from disposal of available-for-sale investment		—	351	—
Purchases of available-for-sale investments		(10,000)	(25,000)	—
Proceeds upon maturity of available-for-sale investments		15,000	10,000	25,000
Interest received		708	667	898
Net cash flows from/(used in) investing activities		(5,495)	(30,567)	5,293
CASH FLOWS FROM FINANCING ACTIVITIES				
Contribution from shareholders	28(b)	10,400	—	—
New bank borrowings		51,900	42,000	15,000
Repayments of bank borrowings		(102,016)	(51,000)	(16,000)
Dividends paid	11	—	—	(96,000)
Interest paid		(4,294)	(1,384)	(1,002)
Net cash flows used in financing activities		(44,010)	(10,384)	(98,002)

	Notes	Year ended 31 December 2012 RMB'000	2013 RMB'000	2014 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		6,034	4,032	28,928
Cash and cash equivalents at beginning of year		19,010	25,044	29,077
Effect of foreign exchange rate changes, net		—	1	(1)
CASH AND CASH EQUIVALENTS AT END OF YEAR		25,044	29,077	58,004
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	21	25,044	29,077	58,004

II. NOTES TO THE FINANCIAL INFORMATION

1 CORPORATE INFORMATION

Zhongzhi Pharmaceutical Holdings Limited (the "Company") was incorporated in the Cayman Islands on 12 September 2014 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacture and sale of pharmaceutical products (collectively the "[REDACTED] Business") in the People's Republic of China (the "PRC").

Prior to the incorporation of the Company and the completion of the reorganisation as set out in the paragraph headed "History and Corporate Structure — Reorganisation" in the [REDACTED] (the "Reorganisation"), the main operating activities of the [REDACTED] Business was carried out by Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. ("Zhongzhi Pharmaceutical") and its subsidiaries, which were incorporated in the PRC. The Company and its subsidiaries comprising the Group are under the control of Mr. Lai Zhitian (Mr. Lai, the "Controlling Shareholder").

In preparation for [REDACTED], the Group underwent the Reorganisation to transfer the [REDACTED] Business to the Company. Upon completion of the Reorganisation, the Company became the ultimate holding company of the Group.

As of the date of this report, the Company has direct and indirect interests in the following entities:

Company name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Windom Talent Company Limited ("Windom Talent")[(a)]	British Virgin Islands ("BVI"), 16 September 2014, BVI	US$50,000	100%	—	Investment holding
Grant Talent Development Limited ("Grant Talent")[(a)]	Hong Kong, 1 August 2014, Hong Kong	HK$1	—	100%	Investment holding
Zhongzhi Pharmaceutical [(b)]	PRC 27 September 1999, Mainland China	RMB30,000,000	—	100%	Sale of pharmaceutical drugs
Zeus Medicine Hong Kong Limited[(c)]	Hong Kong, 14 April 2011, Hong Kong	HK$10,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chain Pharmacies Company Limited ("Zhongzhi Chain Pharmacies")[(b)]	PRC, 27 July 2001, Mainland China	RMB4,600,000	—	100%	Sale of pharmaceutical drugs
Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. ("Zhongzhi Herbal Pieces")[(b)]	PRC 10 July 2001, Mainland China	RMB6,600,000	—	100%[#]	Manufacture and sale of Chinese decoction pieces
Zhongshan Honeson Pharmaceutical Co., Ltd. ("Honeson Pharmaceutical")[(b)]	PRC 2 March 1986, Mainland China	RMB10,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Zhongshan Zeus Pharmaceutical Manufacturing Limited[(d)]	PRC 8 August 2003, Mainland China	RMB8,000,000	—	100%	Manufacture and sale of pharmaceutical drugs
Zhongshan Zhongzhi Food Technology Company Limited[(e)]	PRC 10 December 2014, Mainland China	RMB500,000	—	100%	Manufacture and sale of food

(a) No audited financial statements have been prepared as these companies are either newly incorporated in 2014 or they are incorporated in jurisdictions which do not have any statutory audit requirements.

(b) The statutory financial statements for the Relevant Periods prepared in accordance with PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Zhongshan Promise Certified Public Accountants ("中山市成諾會計師事務所有限公司"), certified public accountants registered in the PRC.

(c) The statutory financial statements of Zeus Medicine Hong Kong Limited for the Relevant Periods prepared in accordance with Hong Kong Financial Reporting Standards were audited by D K MAK & CO., certified public accountants registered in Hong Kong.

(d) The statutory financial statements of Zhongshan Zeus Pharmaceutical Manufacturing Limited for the years ended 31 December 2012 and 2013 prepared in accordance with PRC GAAP were audited by Zhongshan Promise Certified Public Accountants ("中山市成諾會計師事務所有限公司"), certified public accountants registered in the PRC. Zhongshan Zeus Pharmaceutical Manufacturing Limited was deregistered in July 2014 and its business was combined in Honeson Pharmaceutical.

(e) No audited financial statements have been prepared as the Company is newly incorporated in 2014, the issued share capital is paid by Zhongzhi Pharmaceutical after 31 December 2014.

Prior to the Reorganisation, Zhongzhi Herbal Pieces was a wholly-owned subsidiary of Zhongzhi Pharmaceutical. After the Reorganisation, Zhongzhi Herbal Pieces was legally owned by certain registered shareholders. Zhongzhi Pharmaceutical entered into a series of contractual arrangements with Zhongzhi Herbal Pieces and its registered shareholders. As a result of the contractual arrangements, Zhongzhi Herbal Pieces was ultimately controlled by Zhongzhi Pharmaceutical, which is a wholly-owned subsidiary of the Company.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation as fully explained in the section headed "History and Corporate Structure — Reorganisation" to the [REDACTED], the Company became the holding company of the companies now comprising the Group on 2 February 2015. As the Reorganisation only involved inserting new holding companies at the top of an existing company (i.e., Zhongzhi Pharmaceutical) and has not resulted in any change of economic substances, the Financial Information for the Relevant Periods has been presented as a continuation of the exiting company using the pooling of interests method as if the Reorganisation had been completed at the beginning of the Relevant Periods.

According to the Foreign Investment Catalogue which has been further explained in the paragraph headed "Regulation — The Foreign Investment Catalogue" in the [REDACTED], the principal activities of Zhongzhi Herbal Pieces (i.e. manufacture and sale of Chinese decoction pieces) fall into the scope of "Catalogue of Prohibited Foreign Investment Industries", whereby Zhongzhi Herbal Pieces cannot be owned by foreign investors.

On 31 August 2014, Mr. Lai, Zhongshan Yuxin Equity Investment Co., Ltd. ("Zhongshan Yu Xin"), Guangdong Junke Venture Investment Co., Ltd. ("Guangdong Jun Ke") and Mr. Luo Tian Quan (羅天泉) ("Mr. Luo"), shareholders of Zhongzhi Pharmaceutical, entered into equity transfer agreements with Zhongzhi Pharmaceutical to acquire 87.56%, 10%, 2% and 0.44% equity interests in Zhongzhi Herbal Pieces at the consideration of RMB7,693,000, RMB878,000, RMB176,000 and RMB39,000, respectively. The acquisitions were legally completed on 22 September 2014 and Zhongzhi Herbal Pieces was owned as to 87.56%, 10%, 2% and 0.44% by Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo (collectively as the "Registered Shareholders"), respectively.

On 31 August 2014, Zhongzhi Pharmaceutical entered into a series of contractual arrangements with Zhongzhi Herbal Pieces and the Registered Shareholders, comprising the exclusive consulting and service agreement, irrevocable power of attorney, exclusive business operating agreement, exclusive option agreement and share pledge agreement (collectively the "Contractual Arrangements"). The arrangements of the Contractual Arrangements enable Zhongzhi Pharmaceutical to exercise effective control over Zhongzhi Herbal Pieces and obtain substantially all economic benefits of

Zhongzhi Herbal Pieces. Accordingly, Zhongzhi Herb Pieces is combined in the Financial Information continuously. Details of the Contractual Arrangements are disclosed in the section headed "History and Corporate Structure — Reorganisation — Contractual Arrangements" to the [REDACTED].

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB"). All IFRSs effective for the accounting period commencing from 1 January 2014, together with the relevant transitional provisions, have been early adopted in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared on a historical cost convention, except for bank financial products which have been measured at fair value. The Financial Information is presented in Renminbi ("RMB") which is the Company's functional currency, and all values are rounded to the nearest thousand except otherwise indicated.

Basis of Combination

As aforementioned, the Group's Reorganisation is accounted for as business combination under common control using the merger accounting method.

The merger accounting method involves incorporating the financial statement items of the combining entities or businesses which underwent the Reorganization under common control as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. The net assets of the combining entities or businesses are combined using the existing book values. No amount is recognised in respect of goodwill or excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost of investment at the time of common control combination, to the extent of the continuation of the controlling party's interest. The combined statements of comprehensive income included the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the Reorganisation under common control.

Equity interests in subsidiaries held by parties other than the controlling shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting method. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in the Financial Information.

IFRS 9	*Financial Instruments*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010–2012 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2011–2013 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of IFRSs[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 IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB published the final version of IFRS 9 *Financial Instruments*, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group expects that the adoption of IFRS 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.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 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 IFRS 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 IFRSs. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

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 arrangements 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 statement 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 IFRS *5 Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Business combination 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 interests 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 interests 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 IAS 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 IAS 39, it is measured in accordance with the appropriate IFRS. 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 interests 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 disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its financial instruments 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is 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 Information 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 Information 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 and 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 statement 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 of the Relevant Periods 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 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) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement 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; and the sponsoring employers of the post-employment benefit plan;

(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 statement 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 estimated useful lives of property, plant and equipment used are as follows:

Leasehold improvement	3–10 years
Buildings	20 years
Machinery	3–10 years
Motor vehicle	4–5 years
Office equipment	3–5 years

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 statement of profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents leasehold improvements under construction and machinery received but not completely installed. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs 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. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as finite. Intangible assets with finite lives are 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 the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss as the expense category that is consistent with the function of the intangible assets.

Intangible assets are amortised on the straight-line basis over the following estimated useful lives:

Drug formulation	10 years
Software	10 years

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Research and development costs

All research costs are charged to the statement 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 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 statement 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 statement 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. 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.

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.

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 statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and bank financial products. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Bank financial products in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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 statement of profit or loss in other income and gains or other expenses, 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 statement of profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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 statement 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 combined statement 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 of the Relevant Periods whether there is any 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 amount of the loss is recognised in the statement 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 the statement 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 statement of profit or loss, is removed from other comprehensive income and recognised in the statement 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 statement of profit or loss - is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement 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 loans and borrowings.

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 and other payables, accruals, amount due to a shareholder and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of loans and borrowings is as follows:

After initial recognition, interest-bearing bank and other 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 statement 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 statement 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 statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement 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 using the weighted average cost method. 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 combined 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 combined statements of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised 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 each of the Relevant Periods, 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 each of the Relevant Periods 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 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, 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, 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 of the Relevant Periods 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 of the Relevant Periods 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 each of the Relevant Periods.

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 statement 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) interest income, on an accrual basis using the effective interest rate 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; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Provision

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 statement of profit or loss.

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 currency translation

The Financial Information is presented in RMB, 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 information of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement 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 determined. 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 the subsidiaries established outside PRC are currencies other than the RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity until the disposal of the respective foreign operation entity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the combined statements of cash flows, the cash flows of the subsidiaries established outside PRC are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the companies established outside PRC which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgments, 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Contractual arrangements

Zhongzhi Herbal Pieces is engaged in the manufacture and sale of Chinese decoction pieces, which falls in the scope of "Catalogue of Restricted Foreign Investment Industries" and foreign investors are prohibited to invest in such business.

As disclosed in note 2.1 to the Financial Information, as part of the Reorganisation, the equity interests in Zhongzhi Herbal Pieces were transferred to the Registered Shareholders and the Group exercises control over Zhongzhi Herbal Pieces and enjoys all economic benefits of Zhongzhi Herbal Pieces through the Contractual Arrangements.

The Group considers that it controls Zhongzhi Herbal Pieces, notwithstanding the fact that it does not hold direct equity interest in Zhongzhi Herbal Pieces, as it has power over the financial and operating policies of Zhongzhi Herbal Pieces and receives all economic benefits from the business activities of Zhongzhi Herbal Pieces through the Contractual Arrangements. Accordingly, Zhongzhi Herbal Pieces has been accounted as a subsidiary during the Relevant Periods.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill were RMB1,628,000 as at 31 December 2012, 2013 and 2014. Further details are given in note 15 to the Financial Information.

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 of the Relevant Periods. The 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 deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences 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.

Impairment of trade and other receivables

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade and other receivables amounted to RMB74,000, RMB24,000 and RMB17,000 as at 31 December 2012, 2013 and 2014, respectively.

4. OPERATING SEGMENT INFORMATION

The board of directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the board of directors for the purposes of allocating resources and assessing performance.

For management purposes, the Group is organised into business units based on its sales channels and has two reportable operating segments as follows:

(a) Operation of chain pharmacies

(b) Pharmaceutical manufacturing

Separate individual financial information for different types of channel is presented to the board of directors who reviews the internal reports in order to assess performance and allocate resources.

Segment results are evaluated based on gross profit. No analysis of the Group's assets and liabilities by operating segments is disclosed as it is not regularly provided to the board of directors.

Geographical information

During the Relevant Periods, the Group operates within one geographical segment because 100% of its revenue was generated in the PRC and all of its assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

During each of the years ended 31 December 2012, 2013 and 2014, the Group had no revenue from transaction with a single customer which amounted to 10% or more of the Group's sales.

	Year ended 31 December 2012		
	Operation of chain pharmacies	Pharmaceutical manufacturing	Total
	RMB'000	RMB'000	RMB'000
Segment revenue			
Revenue from external customers	237,812	172,240	410,052
Intersegment sales	—	38,686	38,686
Elimination of intersegment sales	—	(38,686)	(38,686)
Revenue	237,812	172,240	410,052
Cost of sales	(135,787)	(85,578)	(221,365)
Segment results	102,025	86,662	188,687
Reconciliation:			
Other income and gains			7,370
Selling and distribution expenses			(121,904)
Administrative expenses			(35,258)
Other expenses			(11,152)
Finance costs			(4,294)
Profit before tax			23,449

	Year ended 31 December 2013		
	Operation of chain pharmacies	Pharmaceutical manufacturing	Total
	RMB'000	RMB'000	RMB'000
Segment revenue:			
Revenue from external customers	275,543	207,262	482,805
Intersegment sales	—	44,393	44,393
Elimination of intersegment sales	—	(44,393)	(44,393)
Revenue	275,543	207,262	482,805
Cost of sales	(145,113)	(98,317)	(243,430)
Segment results	130,430	108,945	239,375
Reconciliation:			
Other income and gains			5,383
Selling and distribution expenses			(142,326)
Administrative expenses			(38,881)
Other expenses			(15,364)
Finance costs			(1,384)
Profit before tax			46,803

	Year ended 31 December 2014		
	Operation of chain pharmacies	Pharmaceutical manufacturing	Total
	RMB'000	RMB'000	RMB'000
Segment revenue:			
Revenue from external customers	300,725	294,840	595,565
Intersegment sales	—	42,767	42,767
Elimination of intersegment sales	—	(42,767)	(42,767)
	300,725	294,840	595,565
Cost of sales	(153,362)	(121,928)	(275,290)
Segment results	147,363	172,912	320,275
Reconciliation:			
Other income and gains			6,528
Selling and distribution expenses			(148,747)
Administrative expenses			(50,196)
Other expenses			(12,048)
Finance costs			(1,002)
Profit before tax			114,810

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 during the Relevant Periods.

An analysis of revenue, other income and gains is as follows:

		Year ended 31 December		
		2012	2013	2014
	Notes	RMB'000	RMB'000	RMB'000
Revenue				
Sale of pharmaceutical products		410,052	482,805	595,565
Other income and gains				
Interest income		320	303	366
Interest income from available-for-sale investments		388	364	532
Government grants:				
— Related to assets	25	1,953	456	193
— Related to income	25	4,096	2,500	3,902
Gain on disposal of items of property, plant and equipment		34	554	67
Others		579	1,206	1,468
		7,370	5,383	6,528

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December		
		2012	2013	2014
	Notes	RMB'000	RMB'000	RMB'000
Cost of inventories sold		221,265	243,335	275,290
Depreciation of items of property, plant, and equipment	13	11,566	10,701	12,028
Recognition of prepaid land lease payments*	14	494	470	470
Recognition of other intangible assets**	16	264	285	224
Provision/(reversal of provision) for impairment of trade receivables	19	74	(50)	(7)
Write-down of inventories to net realisable value		100	95	—
Operating lease expenses for land and buildings		14,723	17,173	18,649
Auditors' remuneration		277	289	1,023
[REDACTED] expense		—	—	[REDACTED]
Employee benefit expense (including directors' remuneration (note 8)):				
Salaries and wages		66,680	101,974	106,622
Pension scheme contributions		4,520	6,100	7,860
Staff welfare expenses		6,865	7,228	6,678
Share-based payment		5,680	—	—
		83,745	115,302	121,160
Other expenses:				
Research and development costs		10,750	14,001	11,184
Loss on disposal of items of property, plant and equipment		325	456	137
Loss on disposal of intangible assets		—	—	216
Loss on disposal of available-for-sale investment	17	—	99	—
Others		77	808	511
		11,152	15,364	12,048

* The recognition of prepaid land lease payments for the Relevant Periods is included in "Administrative expenses" on the face of the combined statements of profit or loss.

** The amortisation of drug formulation for the Relevant Periods is included in "Cost of sales" on the face of the combined statements of profit or loss.

The amortisation of software for the Relevant Periods is included in "Administrative expenses" on the face of the combined statements of profit or loss.

7. FINANCE COSTS

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	4,294	1,384	1,002

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the Relevant Periods, disclosed pursuant to the Listing Rules, is as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	190	194	862
Pension scheme contributions	13	26	113
Share-based payment	1,222	—	—
	1,425	220	975

2012

	Salaries, allowances and benefits in kind	Pension scheme contributions	Share-based payment	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Lai Zhitian	190	13	1,222	1,425
Jiang Lixia	—	—	—	—
	190	13	1,222	1,425

2013

	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000
Executive directors:			
Lai Zhitian	194	26	220
Jiang Lixia	—	—	—
	194	26	220

2014

	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000
Executive directors:			
Lai Zhitian	319	39	358
Jiang Lixia	—	—	—
Mou Li	272	39	311
Cao Xiaojun	271	35	306
	862	113	975

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended 31 December 2012, 2013 and 2014 include 1, 1 and 3 directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining 4, 4 and 2 highest paid employees who are neither a director nor chief executive of the Group, during the Relevant Periods are as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	577	639	561
Pension scheme contributions	50	99	75
Share-based payment	2,764	—	—
	3,391	738	636

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December		
	2012	2013	2014
Nil to HK$1,000,000	1	4	2
HK$1,000,001 to HK$1,500,000	3	0	0

During the Relevant Periods, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the BVI, the Group is not subject to any income tax in the BVI.

Hong Kong profit tax rate is 16.5% of the Group's assembled profit derived from Hong Kong. Since the Group had no such profit during the Relevant Periods, no provision for Hong Kong profits tax has been made.

Taxes on profits assessable in Mainland China have been calculated at the prevailing tax rates, based on existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the "PRC Tax Law") effective on 1 January 2008, the PRC corporate income tax rate of the Group's subsidiaries operating in Mainland China during the Relevant Periods was 25% of their taxable profits.

Zhongzhi Herbal Pieces and Honeson Pharmaceutical are qualified as high and new technology enterprises and are subject to a preferential income tax rate of 15% for the Relevant Periods.

The income tax expenses of the Group for the Relevant Periods are analysed as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Mainland China			
Current income tax	5,834	10,758	24,604
Deferred income tax charge/(credit) (note 26)	361	(1,593)	3,518
Total income tax expense	6,195	9,165	28,122

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the locations in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Profit before tax	23,449	46,803	114,810
Tax calculated at the PRC statutory tax rate of 25%	5,862	11,702	28,703
Effect of different applicable tax rates for certain subsidiaries	(1,973)	(2,979)	(4,224)
Effect of withholding tax at 10% on the distributable profits of the Group's subsidiaries in the PRC	—	—	3,000
Expenses not deductible for tax	2,306	442	206
Effect of gain on intra-group transaction	—	—	437
Tax charge at the Group's effective tax rate	6,195	9,165	28,122

The effective tax rates of the Group were 26.4%, 19.6% and 24.5% in 2012, 2013 and 2014 respectively.

11. DIVIDEND

No dividend has been paid or declared by the Company since the date of its incorporation. The dividends declared by Zhongzhi Pharmaceutical to its then shareholders during the year ended 31 December 2012, 2013 and 2014 were nil, nil and RMB96,000,000, respectively.

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 due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods on a combined basis disclosed in note 2 above.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	Buildings	Machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2012							
At 1 January 2012:							
Cost	24,649	57,290	26,374	3,986	5,483	270	118,052
Accumulated depreciation	(13,102)	(18,152)	(14,134)	(3,038)	(3,947)	—	(52,373)
Net carrying amount	11,547	39,138	12,240	948	1,536	270	65,679
At 1 January 2012, net of accumulated depreciation	11,547	39,138	12,240	948	1,536	270	65,679
Additions	7,366	—	1,620	161	1,136	—	10,283
Disposals	—	—	(549)	(5)	(60)	—	(614)
Depreciation provided during the year *(note 6)*	(4,701)	(2,812)	(2,906)	(422)	(725)	—	(11,566)
Transfers	—	—	270	—	—	(270)	—
At 31 December 2012, net of accumulated depreciation	14,212	36,326	10,675	682	1,887	—	63,782
At 31 December 2012							
Cost	32,015	57,290	26,196	4,045	5,501	—	125,047
Accumulated depreciation	(17,803)	(20,964)	(15,521)	(3,363)	(3,614)	—	(61,265)
Net carrying amount	14,212	36,326	10,675	682	1,887	—	63,782

	Leasehold improvement	Buildings	Machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2013							
At 1 January 2013							
Cost	32,015	57,290	26,196	4,045	5,501	—	125,047
Accumulated depreciation	(17,803)	(20,964)	(15,521)	(3,363)	(3,614)	—	(61,265)
Net carrying amount	14,212	36,326	10,675	682	1,887	—	63,782
At 1 January 2013, net of accumulated depreciation	14,212	36,326	10,675	682	1,887	—	63,782
Additions	10,444	—	7,489	394	1,190	—	19,517
Disposals	—	—	(1,177)	(8)	(7)	—	(1,192)
Depreciation provided during the year *(note 6)*	(4,487)	(2,796)	(2,384)	(368)	(666)	—	(10,701)
At 31 December 2013, net of accumulated depreciation	20,169	33,530	14,603	700	2,404	—	71,406
At 31 December 2013							
Cost	42,459	57,290	29,396	4,274	6,548	—	139,967
Accumulated depreciation	(22,290)	(23,760)	(14,793)	(3,574)	(4,144)	—	(68,561)
Net carrying amount	20,169	33,530	14,603	700	2,404	—	71,406

	Leasehold improvement	Buildings	Machinery	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2014							
At 1 January 2014							
Cost	42,459	57,290	29,396	4,274	6,548	—	139,967
Accumulated depreciation	(22,290)	(23,760)	(14,793)	(3,574)	(4,144)	—	(68,561)
Net carrying amount	20,169	33,530	14,603	700	2,404	—	71,406
At 1 January 2014, net of accumulated depreciation	20,169	33,530	14,603	700	2,404	—	71,406
Additions	4,256	—	2,092	675	2,558	10,755	20,336
Disposals	—	—	(293)	(35)	(20)	—	(348)
Depreciation provided during the year *(note 6)*	(5,784)	(2,794)	(2,227)	(189)	(1,034)	—	(12,028)
At 31 December 2014, net of accumulated depreciation	18,641	30,736	14,175	1,151	3,908	10,755	79,366
At 31 December 2014							
Cost	46,715	57,290	29,319	4,253	8,764	10,755	157,096
Accumulated depreciation	(28,074)	(26,554)	(15,144)	(3,102)	(4,856)	—	(77,730)
Net carrying amount	18,641	30,736	14,175	1,151	3,908	10,755	79,366

As at 31 December 2012, 2013 and 2014, certain of the Group's buildings with a net carrying amount of RMB35,766,000, RMB33,012,000 and RMB25,467,000, respectively, were pledged as security for the bank borrowings granted to the Group (note 24).

As at 31 December 2012, 2013 and 2014, the Group was still in the process of obtaining the property ownership certificates for certain buildings with a net carrying amount of RMB857,000, RMB785,000 and RMB712,000, respectively. The Group is not able to assign, transfer or mortgage the properties until the certificates are obtained.

14. PREPAID LAND LEASE PAYMENTS

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	16,740	16,246	15,776
Recognised during the year	(494)	(470)	(470)
Carrying amount at 31 December	16,246	15,776	15,306
current portion	(470)	(470)	(470)
Non-current portion	15,776	15,306	14,836

These pieces of leasehold land are situated in Mainland China and are held under medium-term leases.

The above leasehold lands are pledged as security for the bank loan granted to the Group as at 31 December 2012, 2013 and 2014 (note 24).

15. GOODWILL

	2012	2013	2014
	RMB'000	RMB'000	RMB'000
At 1 January and 31 December	1,628	1,628	1,628

Goodwill is acquired through the business combination of Honeson Pharmaceutical in prior year. Goodwill acquired through business combinations is allocated to pharmaceutical drugs cash-generating unit for impairment testing. There was no impairment charge made against goodwill for the year ended 31 December 2012, 2013 and 2014.

Impairment testing of goodwill

The recoverable amounts of the cash-generating unit have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period. The pre-tax discount rates applied to cash flow projections are 5%, 5% and 5% as at 31 December 2012, 2013 and 2014 and the growth rate beyond the five-year period had been projected as 3%.

Assumptions were used in the value in use calculation of cash-generating unit for 31 December 2012, 2013 and 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the past years and the expectation for market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

The value assigned to the key assumptions on market development and discount rates is consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Drug formulation	Software	Total
	RMB'000	RMB'000	RMB'000
31 December 2012			
At 1 January 2012			
Cost	1,741	1,668	3,409
Accumulated amortisation	(1,360)	(384)	(1,744)
Net carrying amount	381	1,284	1,665
At 1 January 2012, net of accumulated amortisation	381	1,284	1,665
Additions	—	38	38
Amortisation provided during the year *(note 6)*	(92)	(172)	(264)
At 31 December 2012, net of accumulated amortisation	289	1,150	1,439
At 31 December 2012:			
Cost	1,741	1,706	3,447
Accumulated amortisation	(1,452)	(556)	(2,008)
Net carrying amount	289	1,150	1,439

	Drug formulation	Software	Total
	RMB'000	RMB'000	RMB'000
31 December 2013			
At 1 January 2013			
Cost	1,741	1,706	3,447
Accumulated amortisation	(1,452)	(556)	(2,008)
Net carrying amount	289	1,150	1,439
At 1 January 2013, net of accumulated amortisation	289	1,150	1,439
Additions	—	419	419
Amortisation provided during the year *(note 6)*	(92)	(193)	(285)
At 31 December 2013, net of accumulated amortisation	197	1,376	1,573
At 31 December 2013:			
Cost	1,741	2,125	3,866
Accumulated amortisation	(1,544)	(749)	(2,293)
Net carrying amount	197	1,376	1,573

	Drug formulation	Software	Total
	RMB'000	RMB'000	RMB'000
31 December 2014			
At 1 January 2014			
Cost	1,741	2,125	3,866
Accumulated amortisation	(1,544)	(749)	(2,293)
Net carrying amount	197	1,376	1,573
At 1 January 2014, net of accumulated amortisation	197	1,376	1,573
Additions	—	233	233
Disposals	(182)	(34)	(216)
Amortisation provided during the year *(note 6)*	(15)	(209)	(224)
At 31 December 2014, net of accumulated amortisation	—	1,366	1,366
At 31 December 2014:			
Cost	—	2,217	2,217
Accumulated amortisation	—	(851)	(851)
Net carrying amount	—	1,366	1,366

17. AVAILABLE-FOR-SALE INVESTMENTS

	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Current			
Investment in bank financial products, at fair value	10,000	25,000	—
Non-current			
Unlisted investment, at cost	450	—	—

Current available-for-sale investments represented investment in financial products issued by China Construction Bank and the entire investment cannot be redeemed before maturity.

Non-current available-for-sale investments consist of investment in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate. The fair value of unlisted investment cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for the investment, and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. The investment was stated at cost less any impairment losses.

During the year ended 31 December 2012, 2013 and 2014, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income was nil. The unlisted investment was disposed in 2013 and loss on disposal of available-for-sale investment amounting to RMB99,000 was recognised in the statement of profit or loss for the year ended 31 December 2013.

18. INVENTORIES

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Raw materials	19,692	31,698	22,146
Work in progress	7,811	14,177	7,983
Finished goods	53,738	63,065	58,342
	81,241	108,940	88,471

19. TRADE AND NOTES RECEIVABLES

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade receivables	16,122	17,069	25,381
Notes receivable	10,758	11,759	10,125
	26,880	28,828	35,506
Less: Impairment of trade receivables	(74)	(24)	(17)
	26,806	28,804	35,489

The Group's trading terms with its wholesale customers are mainly on credit. The credit period is generally not exceeding than two months for major customers. As to new customers, payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to customers with a good track record, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

An aged analysis of the trade receivables as at the end of the reporting periods, based on the invoice date is as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 1 month	10,935	12,944	20,889
1 to 3 months	4,276	3,851	3,974
3 to 6 months	509	78	274
6 to 12 months	163	196	60
Over 12 months	239	—	184
	16,122	17,069	25,381

The notes receivable are settled within 180 days. No notes receivable are discounted as at 31 December 2012, 2013, 2014, respectively. As at 31 December 2012, 2013 and 2014, the Group has endorsed notes receivable of RMB9,135,000, RMB8,814,000 and RMB8,112,000 to settle trade payables (note 34), respectively.

The movements in provision for impairment of trade receivables are as follows:

	Individually impaired
	RMB'000
At 1 January 2012	—
Impairment losses reversed *(note 6)*	(74)
At 31 December 2012 and 1 January 2013	(74)
Impairment losses reversed *(note 6)*	50
At 31 December 2013 and 1 January 2014	(24)
Impairment losses reversed *(note 6)*	7
At 31 December 2014	(17)

Included in the above provision for impairment of trade receivables as at 31 December 2012, 2013 and 2014 is a provision for individually impaired trade receivables of RMB74,000, RMB24,000 and RMB17,000, respectively with a carrying amount before provision as at 31 December 2012, 2013 and 2014 of RMB74,000, RMB24,000 and RMB17,000, respectively.

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	14,453	14,645	21,822
Less than 3 month past due	1,204	2,221	3,259
Over 3 months past due	391	179	283
	16,048	17,045	25,364

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Prepayments	980	934	4,020
VAT recoverable	987	4,585	861
Deposits and other receivables	2,653	2,229	3,062
	4,620	7,748	7,943

21. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Cash and bank balances	25,044	29,077	58,004
Denominated in:			
— RMB	25,020	29,071	57,975
— HKD	24	6	29
	25,044	29,077	58,004

At the end of each of the Relevant Periods, most of the cash and bank balances of the Group were denominated in RMB. The 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 are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balance are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade payables	49,458	54,218	52,802

An aged analysis of the trade payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 3 months	38,366	45,764	43,740
3 to 6 months	6,583	3,962	5,539
6 to 12 months	2,541	2,772	2,137
over 12 months	1,968	1,720	1,386
	49,458	54,218	52,802

The trade payables are non-interest-bearing and are normally settled on terms not exceeding 60 days.

23. OTHER PAYABLES AND ACCRUALS

		As at 31 December		
		2012	2013	2014
	Note	RMB'000	RMB'000	RMB'000
Accruals and other payables		9,439	15,523	8,726
Accrued salary and welfare		12,582	20,725	16,686
Advances from customers		12,639	13,005	9,572
Endorsed notes	34	9,135	8,814	8,112
Deposits received		9,213	9,549	9,810
Payables for purchases of property and equipment		293	1,328	1,030
Other tax payables		4,458	6,912	6,869
		57,759	75,856	60,805

Other payables are non-interest bearing and have an average term of six months.

24. INTEREST-BEARING BANK BORROWINGS

2012

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	6.56–7.54	2013	25,000

2013

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	6.00–6.90	2014	16,000

2014

	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans — secured	6.00–6.90	2015	15,000

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank loans and overdrafts repayable:			
Within one year or on demand	25,000	16,000	15,000

All of the Group's bank loans are secured by:

(i) mortgages over the Group's buildings, which had an aggregate carrying value of approximately RMB35,766,000, RMB33,012,000 and RMB25,467,000 as at 31 December 2012, 2013, and 2014, respectively; and were pledged as security for the bank borrowings of RMB25,000,000, RMB16,000,000 and RMB15,000,000 as at 31 December 2012, 2013, and 2014, respectively; granted to Zhongzhi Herbal Pieces, Honeson Pharmaceutical, and Zhongzhi Pharmaceutical; and

(ii) mortgages over the Group's prepaid land lease payments, which had an aggregate carrying value of approximately RMB16,246,000, RMB15,776,000 and RMB15,306,000 as at 31 December 2012, 2013 and 2014, respectively.

In addition, Zhongzhi Pharmaceutical has guaranteed Honeson Pharmaceutical's bank loan of up to RMB30,000,000 as at 31 December 2014. Prior to 30 July 2014, Honeson Pharmaceutical's bank loan was guaranteed by Mr. Lai (the Controlling Shareholder) and Zhongzhi Pharmaceutical of up to RMB32,000,000.

25. DEFERRED INCOME

	2012	2013	2014
	RMB'000	RMB'000	RMB'000
At 1 January	11,149	8,584	11,430
Received amounts	3,484	5,802	7,731
Released amounts	(6,049)	(2,956)	(4,095)
At 31 December	8,584	11,430	15,066
Current	2,485	1,921	6,019
Non-current	6,099	9,509	9,047
	8,584	11,430	15,066

The grants are related to the subsidies received from the government for the purpose of subsidies for expenses arising from research and development activities and improvement of manufacturing facilities on certain special projects. Upon completion of the related projects and having passed the final assessment of the relevant government authorities, the grants related to the expense items would be recognised as other income directly in the statement of profit or loss and the grants related to an asset would be released to the statement of profit or loss over the expected useful life of the relevant asset.

26. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Deferred tax assets	3,966	5,534	4,976
Deferred tax liabilities	(1,414)	(1,389)	(4,349)

Group

	2012 Deferred tax assets								
	Decelerated depreciation for tax purposes	Impairment of inventories	Impairment of trade receivables	Government grants	Accruals	Unrealised profit from intercompany transactions	Losses available for offsetting against future taxable profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	288	16	—	2,667	—	752	515	112	4,350
Deferred tax credited/(charged) to the statement of profit or loss during the year	35	(1)	18	(640)	—	831	(515)	(112)	(384)
At 31 December 2012	323	15	18	2,027	—	1,583	—	—	3,966

Group

	2013 Deferred tax assets								
	Decelerated depreciation for tax purposes	Impairment of inventories	Impairment of trade receivables	Government grants	Accruals	Unrealised profit from intercompany transactions	Losses available for offsetting against future taxable profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2012 and 1 January 2013	323	15	18	2,027	—	1,583	—	—	3,966
Deferred tax credited/(charged) to the statement of profit or loss during the year	29	(1)	(12)	272	750	530	—	—	1,568
At 31 December 2013	352	14	6	2,299	750	2,113	—	—	5,534

Group

	2014 Deferred tax assets								
	Decelerated depreciation for tax purposes	Impairment of inventories	Impairment of trade receivables	Government grants	Accruals	Unrealised profit from intercompany transactions	Losses available for offsetting against future taxable profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2013 and 1 January 2014	352	14	6	2,299	750	2,113	—	—	5,534
Deferred tax credited/(charged) to the statement of profit or loss during the year	(138)	(14)	(2)	659	(198)	(871)	—	6	(558)
At 31 December 2014	214	—	4	2,958	552	1,242	—	6	4,976

Group

	Deferred tax liabilities		
	Fair value adjustment on acquisition	Withholding taxes	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2012	(1,437)	—	(1,437)
Deferred tax credited/(charged) to the statement of profit or loss during the year	23	—	23
At 31 December 2012 and 1 January 2013	(1,414)	—	(1,414)
Deferred tax credited/(charged) to the statement of profit or loss during the year	25	—	25
At 31 December 2013 and 1 January 2014	(1,389)	—	(1,389)
Deferred tax credited/(charged) to the statement of profit or loss during the year	40	(3,000)	(2,960)
At 31 December 2014	(1,349)	(3,000)	(4,349)

Pursuant to the PRC Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings 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 subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. At 31 December 2014, deferred tax of RMB3,000,000 has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China, which is related to the dividend amounting to RMB30,000,000 declared in April 2015. In the opinion of the Directors, after the distribution of RMB30,000,000, the unremitted earnings of the Group's subsidiaries in the Mainland China as at 31 December 2014 are expected to be used to fund their operations and capital expenditure and therefore it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled approximately RMB48,086,000 at 31 December 2014.

The Group has not provided deferred tax at 31 December 2012 and 2013 for withholding tax that would be payable on undistributed earnings generated by Zhongzhi Pharmaceutical, its subsidiary in Mainland China as all of the retained earnings as at 31 December 2012 and 2013 have been distributed to the shareholders of Zhongzhi Pharmaceutical which is registered in Mainland China before completion of the Reorganisation.

27. SHARE CAPITAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 September 2014 with an authorised share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each, of which 10,000 Shares were issued and allotted fully paid to Cheer Lik Development Limited ("Cheer Lik", a Company owned by Mrs. Lai) at par. On 2 February 2015, Cheer Lik entered into various share transfer agreements, pursuant to which Cheer Lik transferred 8,052 Shares, 1,000 shares, 200 shares and 44 shares to Crystal Talent Investment Group Limited (a Company owned by Mr. Lai), Advance Keypath Global Investments Limited, Metro Joy International Limited and Aces Chess Global Limited at par and such transfers were legally completed on the same date. As at 31 December 2014, the capital issued and fully paid amounted to total HK$100.

Save for the aforesaid and the Reorganisation, the Company has not conducted any business since the date of its incorporation.

28. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for each for the Relevant Periods are presented in the combined statements of changes in equity on page 7 of this report.

(b) Merger reserve

The merger reserve of the Group represents the capital contribution from its then shareholders of Zhongzhi Pharmaceutical amounting to RMB31,200,000

(c) Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

(d) Share-based payment reserve

The share-based payment reserve represent the difference between the fair value of the shares granted to employees of the Group and the costs paid by these employees through Zhongshan Yu Xin, which as an employee benefit expense with a corresponding increase in the share-based payment reserve within equity. The fair value is measured at grant date based on the discounted cash flow method. As there were no future service conditions attached to the share-based payments, the share-based payments were vested immediately.

29. COMMITMENTS

Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Leasehold improvement	—	1,612	545
Plant and machinery	1,807	1,304	1,745
	1,807	2,916	2,290

At the end of 31 December 2012, 2013 and 2014, the Group had no significant authorised but not contracted capital commitment.

Operating lease commitments

As lessor

The Group sublet certain of its leased properties under operating lease arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within one year	—	38	197
In the second to fifth years, inclusive	—	60	46
	—	98	243

As lessee

The Group leases certain of its land and buildings under operating lease arrangements. Leases for land and buildings are negotiated for terms ranging from 1 to 10 years. As at the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within one year	16,561	17,113	16,894
In the second to fifth years, inclusive	46,591	31,548	34,561
Beyond five years	5,502	3,388	4,501
	68,654	52,049	55,956

30. RELATED PARTY TRANSACTIONS

(a) Outstanding balances with related parties

(i) As disclosed in the combined statement of financial position, the Group had an outstanding balance due to its shareholder of RMB54,000, RMB53,000 and nil as at 31 December 2012, 2013 and 2014 respectively. These balances are unsecured, interest-free and have no fixed terms of repayment.

(ii) Amounts due to related parties as at 31 December 2014 represent consideration received from the Registered Shareholders as part of the Reorganisation. Pursuant to the Contractual Arrangements, the consideration is repayable to the Registered Shareholders upon exercise of the option to repurchase the equity interest of Zhongzhi Herb Pieces by the Group. The amounts are unsecured, interest-free and have no fixed term of repayment.

(b) Compensation of key management personnel of the Group:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	1,023	1,120	1,816
Pension scheme contributions	87	169	237
Share-based payment	4,274	—	—
	5,384	1,289	2,053

Further details of directors' and the chief executive's emoluments are included in note 8 to the Financial Information.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of each of the Relevant Periods are as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Financial assets — loans and receivables			
Rental deposits	2,491	2,505	3,275
Trade and notes receivables	26,806	28,804	35,489
Deposits and other receivables	2,653	2,229	3,062
Cash and cash equivalents	25,044	29,077	58,004
	56,994	62,615	99,830

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Financial assets — available-for-sale			
Available-for-sale investments	10,450	25,000	—

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Financial liabilities at amortised cost			
Trade payables	49,458	54,218	52,802
Financial liabilities included in other payables and accruals	28,080	35,214	27,678
Amount due to a shareholder	54	53	—
Due to related parties	—	—	8,786
Interest-bearing bank borrowings	25,000	16,000	15,000
	102,592	105,485	104,266

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

During the Relevant Periods, the Group and the Company had no financial instruments, other than those with carrying amounts that reasonably approximate to fair values.

Management has assessed that the fair values of cash and cash equivalents, trade and notes receivables, deposits and other receivables, trades payables, financial liabilities included in other payables and accruals, and short-term interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

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 Group has carried all investment securities that are classified as available-for-sale investments at their fair values as required by IAS 39, except for unlisted investments which were stated at cost (note 17).

The fair value of bank financial products that are classified as available-for-sale investments have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risks and remaining maturities.

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments measured at fair value at level 2 Input, There is no assets measured at fair value using level 1 or level 3 Input.

Assets measured at fair value:

Group

	As at 31 December		
	2012	**2013**	**2014**
Available-for-sale investments			
— Investment in bank financial products	10,000	25,000	—

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, available for sale investments, and cash and cash equivalents. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate 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 does not have any variable rate debts. All of the Group's interest-bearing borrowings as at 31 December 2012, 2013 and 2014 bore interest at fixed rates. The interest rate risk of the Group is mainly due to the interest rate fluctuations attributed to cash deposits. Therefore the Group does not have any significant exposure to risk of changes in market interest rates. The Group currently does not have a specific policy to manage its interest rate risk and has not entered into interest rate swaps.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type. There are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables are disclosed in note 19 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 bank and other borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

	As at 31 December 2012				
	On demand	Less than 3 months	3 to less than 12 months	1 to 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	8,071	41,387	—	—	49,458
Financial liabilities included in other payables and accruals	—	15,190	5,388	7,502	28,080
Amount due to a shareholder	—	—	—	54	54
Interest-bearing bank borrowings	—	—	25,767	—	25,767
	8,071	56,577	31,155	7,556	103,359

	As at 31 December 2013				
	On demand	Less than 3 months	3 to less than 12 months	1 to 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	9,257	44,961	—	—	54,218
Financial liabilities included in other payables and accruals	—	22,429	8,186	4,599	35,214
Amount due to a shareholder	—	—	53	—	53
Interest-bearing bank borrowings	—	—	16,510	—	16,510
	9,257	67,390	24,749	4,599	105,995

	As at 31 December 2014				
	On demand	Less than 3 months	3 to less than 12 months	1 to 2 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	8,720	44,082	—	—	52,802
Financial liabilities included in other payables and accruals	267	15,741	6,660	5,010	27,678
Due to related parties	8,786	—	—	—	8,786
Interest-bearing bank borrowings	—	—	15,523	—	15,523
	17,773	59,823	22,183	5,010	104,789

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 the shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, return capital to the 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 Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. The net debt includes trade payables, other payables and accruals, interest-bearing bank borrowings minus cash and cash equivalents borrowings. Capital includes equity attributable to owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level. The gearing ratios as at the end of each of the Relevant Periods were as follows:

		As at 31 December		
		2012	2013	2014
	Notes	RMB'000	RMB'000	RMB'000
Trade payables	22	49,458	54,218	52,802
Other payables and accruals	23	57,759	75,856	60,805
Interest-bearing bank borrowings	24	25,000	16,000	15,000
Less: Cash and cash equivalents	21	(25,044)	(29,077)	(58,004)
Net debt		107,173	116,997	70,603
Equity attributable to owners of the parent		92,571	130,210	120,897
Capital and net debt		199,744	247,207	191,500
Gearing ratio		54%	47%	37%

34. TRANSFERS OF FINANCIAL ASSETS

As at 31 December 2012, 2013 and 2014, the Group endorsed certain notes receivables accepted by certain banks in the Mainland China (the "Endorsed Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). Subsequent to the Endorsement, the Group does not retain any rights on the use of the Endorsed Notes, including sale, transfer or pledge of the Endorsed Notes to any other third parties. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Endorsed Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). The total carrying amounts of the Endorsed Notes as at 31 December 2012, 2013 and 2014 were RMB31,484,000, RMB29,207,000 and RMB35,912,000, respectively of which the Endorsed Notes and the associated trade payables with carrying amounts of RMB22,349,000, RMB20,393,000 and RMB27,800,000 as at 31 December 2012, 2013 and 2014, respectively, had been fully derecognised. The Group carefully assesses the default risk of the PRC banks based on the credit rating reports from an independent PRC credit agency. The Group only derecognises the notes receivables that have been accepted by banks with high credit ratings as the Directors are of the view that the default risk of these banks is remote and the Group has transferred substantially all the risks and rewards relating to such notes (the "Derecognised Note"). The Derecognised Notes have a maturity from 1 to 5 months at the end of each of the Relevant Periods. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase the Derecognised Notes equals to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant, given the insignificant default risk of the related PRC banks.

During the year ended 31 December 2012, 2013 and 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year ended 31 December 2012, 2013 and 2014 or cumulatively. The Endorsement has been made evenly throughout the year ended 31 December 2012, 2013 and 2014.

The Group continued to recognise the carrying amount of the remaining Endorsed Notes and associated trade payables settled of RMB9,135,000, RMB8,814,000 and RMB8,112,000 as at 31 December 2012, 2013 and 2014, respectively, as the Directors considered that the Group has retained the substantial risks and rewards, which include default risks relating to such remaining Endorsed Notes.

35. EVENTS AFTER THE REPORTING PERIOD

The following significant events after the Relevant Periods took place subsequent to 31 December 2014:

(a) The companies comprising the Group underwent the Reorganisation in the preparation for [REDACTED].

Various equity transfer agreements were entered into by Grant Talent with Zhongshan Zhi Ying, Zhongshan Yu Xin, Guangdong Jun Ke and Zhongshan Rui Qi to acquire their respective equity interests of 80.52%, 10%, 2% and 0.44% in Zhongzhi Pharmaceutical. On 2 February 2015, such transfers were approved by the Department of Commerce of Guangdong Province and the same were legally completed on 6 February 2015 when the new business licence of Zhongzhi Pharmaceutical was issued. As a result, Zhongzhi Pharmaceutical became a wholly owned subsidiary of Grant Talent.

(b) On 20 April 2015, Zhongzhi Pharmaceutical declared dividends of RMB30,000,000, which was fully paid by the end of April 2015. Such dividend was not accounted for in the Financial Information during the Relevant Periods.

36. SUBSEQUENT FINANCIAL INFORMATION

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

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 [REDACTED], and is included for information purposes only. The pro forma financial information should be read in conjunction with the "Financial Information" section in this [REDACTED] and the Accountants' Report set out in Appendix I to this [REDACTED].

A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets have been prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the HKICPA for illustration purposes only, and is set out here to illustrate the effect of the [REDACTED] on our combined net tangible assets as of 31 December 2014 as if it had taken place on 31 December 2014.

The unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the [REDACTED] been completed as of 31 December 2014 or any future date. It is prepared based on our combined net tangible assets as of 31 December 2014 as set out in the Accountants' Report as set out in Appendix I to this [REDACTED], and adjusted as described below. The unaudited pro forma adjusted combined net tangible assets does not form part of the Accountants' Report as set out in Appendix I to this [REDACTED].

	Combined net tangible assets attributable to owners of our Company as of 31 December 2014	Estimated net proceeds from the [REDACTED]	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per [REDACTED]	
	RMB'000 *(Note 1)*	RMB'000 *(Note 2)*	RMB'000	RMB *(Note 3 and Note 4)*	(HK$ equivalent) *(Note 5)*
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Based on an [REDACTED] of HK$[REDACTED] per [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

(1) The combined net tangible assets of our Group attributable to owners of our Company as of 31 December 2014 is extracted from the Accountants' Report, which is based on the audited combined equity attributable to owners of our Company as of 31 December 2014 of approximately RMB120.9 million less goodwill and other intangible assets as of 31 December 2014 of approximately RMB1.6 million and RMB1.3 million, respectively.

(2) The estimated net proceeds from the [REDACTED] are based on the [REDACTED] of HK$[REDACTED] per [REDACTED] and HK$[REDACTED] per [REDACTED], after deduction of the underwriting fees and related expenses payable by our Company and does not take into account of any Shares which may be issued upon the exercise of the [REDACTED]. The estimated net proceeds from the [REDACTED] are converted from Hong Kong dollars into Renminbi at an exchange rate of HK$1.0 to RMB0.8 prevailing on 31 December 2014.

(3) The unaudited pro forma adjusted combined net tangible assets per [REDACTED] is calculated based on [REDACTED] Shares in issue immediately following the completion of the [REDACTED] and does not take into account of any Shares which may be issued upon the exercise of the [REDACTED].

(4) The unaudited pro forma adjusted combined net tangible assets attributable to owners of our Company does not take into account a dividend of RMB30 million declared and paid by Zhongzhi Pharmaceutical in April 2015. Had the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets per Share would be HK$[REDACTED] (assuming an [REDACTED] of HK$[REDACTED] per [REDACTED]) and HK$[REDACTED] (assuming an [REDACTED] of HK$[REDACTED] per [REDACTED]), respectively.

(5) The unaudited pro forma adjusted combined net tangible assets per [REDACTED] is converted into Hong Kong dollars at an exchange rate of HK$1.0 to RMB0.8 prevailing on 31 December 2014.

B. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

[REDACTED]

[REDACTED]

[REDACTED]

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this [REDACTED] received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 31 May 2015 of the properties located in the PRC.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33rd Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道6-8號瑞安中心33樓
Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863
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30 June 2015

The Directors
Zhongzhi Pharmaceutical Holdings Limited
No. 3 Kang Tai Road South
Torch Development Zone
Zhongshan
Guangdong province
The PRC

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Zhongzhi Pharmaceutical Holdings Limited (the "Company") for us to value the properties held by the Company and/or its subsidiaries (together referred to as the "Group") located in the People's Republic of China (the "PRC). We confirm that we have conducted inspections, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 May 2015 (the "valuation date").

BASIS OF VALUATION

Our valuations of the concerned properties have been based on the Market Value, which is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

PROPERTY CATEGORISATIONS

In the course of our valuations, the portfolio of the properties are categorised into the following groups:

Group I	—	Properties partly held for owner-occupation and partly held for investment by the Group in the PRC
Group II	—	Property held for future development by the Group in the PRC

VALUATION METHODOLOGIES

For Property Nos. 1 and 2, we have adopted the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc.; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement". This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of values for assets without a known used market. This opinion of value is subject to adequate profitability of the business compared to the value of the total assets employed.

In valuing Property Nos. 3 and 5, we have valued them on market basis by the Comparison Approach assuming sale in their existing states with the benefit of vacant possession and by making reference to comparable sales evidences as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the properties and the comparables in terms of all relevant factors. Where appropriate, we have also adopted the Investment Approach by taking into account the current passing rent of the portion being held under existing tenancy and the reversionary potential of the tenancy if it has been or would be let to tenant.

TITLE INVESTIGATION

We have been provided with copies of title documents and have been advised by the Group that no further relevant documents have been produced. However, we have not examined the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. In the course of our valuations, we have relied upon the advice and information given by the Group's PRC Legal Advisor — King & Wood Mallesons (金杜律師事務所) regarding the title of the properties located in the PRC. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumptions that the properties are sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no forced sale situation in any manner is assumed in our valuations.

VALUATION CONSIDERATIONS

The site inspections were conducted by Mr. Man Lam (MHKIS) in December 2014. We have inspected the properties externally and where possible, the interior of the properties. In the course of our inspections, we did not note any serious defects. However, no structural surveys have been made. We are, therefore, unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of their services.

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, completion dates of buildings, particulars of occupancy, site/floor areas, identifications of the properties and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfer.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED
Joannau W.F. Chan
BSc., MSc., MRICS, MHKIS, RPS(GP)
Senior Director

Note: Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 22 years' experience in valuations of properties in Hong Kong and over 16 years' experience in valuations of properties in the People's Republic of China.

SUMMARY OF VALUES

Group I — Properties partly held for owner-occupation and partly held for investment by the Group in the PRC

No.	Property	Market Value in existing state as at 31 May 2015
		RMB
1.	5 land parcels, various buildings and structures located at No. 3 Kangtai Road South, Torch Development Zone, Zhongshan, Guangdong province, The PRC	36,100,000
2.	A land parcel, various buildings and structures located at No. 3 Guangfeng Industrial Avenue, Xi District, Zhongshan, Guangdong province, The PRC	40,500,000
3.	Various shop units located at No. 195 Boyuan Road, Dong District, Zhongshan, Guangdong province, The PRC	14,000,000
4.	Various residential units located at Phase III of Health Station, Torch Development Zone, Zhongshan, Guangdong province, The PRC	No Commercial Value
	Sub-total:	90,600,000

Group II — Property held for future development by the Group in the PRC

No.	Property	Market Value in existing state as at 31 May 2015
		RMB
5.	2 land parcels located at the junction of Guangji Xi Road and Kangtai Road, Torch Development Zone, Zhongshan, Guangdong province, The PRC	4,200,000
	Sub-total:	4,200,000
	Grand-total:	94,800,000

VALUATION CERTIFICATE

Group I — Properties partly held for owner-occupation and partly held for investment by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 May 2015
				RMB
1.	5 land parcels, various buildings and structures located at No. 3 Kangtai Road South, Torch Development Zone, Zhongshan, Guangdong province, The PRC	The property comprises 5 land parcels with a total site area of approximately 32,379.4 sq.m. together with 5 buildings and various ancillary structures completed in various stages between 2003 and 2009 erected thereon. The total gross floor area ("GFA") of the buildings of the property is approximately 20,971.8 sq.m. The buildings mainly include workshops, warehouses and ancillary offices. The land use rights of the property have been granted for various terms expiring on 21 May 2048 for industrial use.	The property is occupied by the Group for industrial purpose.	36,100,000

Notes:

1. Pursuant to five State-owned Land Use Rights Certificates (國有土地使用證), Zhong Fu Guo Yong (2005) Nos. 151028 to 151032 (中府國用(2005)第151028號至151032號), the land use rights of the property with a total site area of 32,379.4 sq.m. have been granted to Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") for various terms expiring on 21 May 2048 for industrial use.

2. Pursuant to five Real Estate Title Certificates (房產所有權證), Yue Fang Di Zheng Zi No. C3466575, No. C4060313 and Nos. C5527112 to C5527114 (粵房地證字第C3466575號, C4060313號及C5527112號至C5527114號), the five buildings of the property with a total GFA of 20,971.8 sq.m. is legally owned by Zhongzhi Pharmaceutical. A portion of the property with a GFA of approximately 7,324.92 sq.m. is leased to Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd. (中山市中智中藥飲片有限公司), a consolidated affiliate of the Company, for a term expiring on 31 August 2017.

3. The opinion of the PRC Legal Advisor to the Group contains, *inter alia*, the following:

   a. The land use rights and building ownership rights of the property are legally vested in Zhongzhi Pharmaceutical and Zhongzhi Pharmaceutical is entitled to occupy, use, transfer, lease, mortgage and dispose of the property freely in the market;

   b. Pursuant to two Maximum Amount Mortgage Contracts, Nos. 2012 Di Zi 26 and 27, both dated 27 February 2012, the property is subject to a mortgage in favour of China Construction Bank, Zhongshan Branch; and

c. The property is not subject to any seizures, freeze, other kinds of limitations of estate interest, existence of the third party's interest or non-compliance of the PRC laws regarding the use of the property.

4. Zhongzhi Pharmaceutical is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 May 2015
				RMB
2.	A land parcel, various buildings and structures located at No. 3 Guangfeng Industrial Avenue, Xi District, Zhongshan, Guangdong province, The PRC	The property comprises a land parcel with a site area of approximately 32,422.5 sq.m. together with 6 buildings and various ancillary structures completed in 2007 erected thereon. The total gross floor area ("GFA") of the buildings of the property is approximately 25,728.31 sq.m. The buildings mainly include workshops, warehouses and ancillary offices. The land use rights of the property have been granted for a term expiring on 19 August 2048 for industrial use.	The property is occupied by the Group for industrial purpose.	40,500,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate (國有土地使用證), Zhong Fu Guo Yong (2007) No. 200554 (中府國用(2007)第200554號), the land use rights of the property with a site area of 32,422.5 sq.m. have been granted to Zhongshan Honeson Pharmaceutical Co., Ltd. (中山市恒生藥業有限公司) ("Honeson Pharmaceutical") for a term expiring on 19 August 2048 for industrial use.

2. Pursuant to a Real Estate Title Certificate (房產所有權證), Yue Fang Di Zheng Zi No. C5290088 (粵房地證字第C5290088號), the six buildings of the property with a total GFA of 25,728.31 sq.m. is legally owned by Honeson Pharmaceutical.

3. The opinion of the PRC Legal Advisor to the Group contains, *inter alia*, the following:

   a. The land use rights and building ownership rights of the property are legally vested in Honeson Pharmaceutical and Honeson Pharmaceutical is entitled to occupy, use, transfer, lease, mortgage and dispose of the property freely in the market;

   b. Pursuant to a Maximum Amount Mortgage Loan Contract, dated 11 July 2011, the property is subject to a mortgage in favour of Zhongshan City Village Credit Cooperation United Torch Development Zone (中山市農村信用合作聯社火炬開發區信用社); and

   c. The property is not subject to any seizures, freeze, other kinds of limitations of estate interest, existence of the third party's interest or non-compliance of the PRC laws regarding the use of the property.

4. Honeson Pharmaceutical is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 May 2015
				RMB
3.	Various shop units located at No. 195 Boyuan Road, Dong District, Zhongshan, Guangdong province, The PRC	The property comprises various shop units on the ground floor of a medium-rise composite building completed in 2000s. The total gross floor area ("GFA") of the property is approximately 634.44 sq.m. The land use rights of the property have been granted for a term expiring on 14 November 2041 for commercial use.	A portion of the property with a GFA of 45 sq.m. is subject a tenancy. The remaining portion of the property is occupied by the Group for retail purpose.	14,000,000

Notes:

1. Pursuant to five State-owned Land Use Rights Certificates (國有土地使用證), Zhong Fu Guo Yong (2004) Nos. 216373, 216375 and 216378 to 216380 (中府國用(2004)第216373號, 216375號及216378號至216380號), the land use rights of the property with a total apportioned site area of 102.78 sq.m. have been granted to Zhongshan Zhongzhi Chain Pharmacies Company Limited (中山市中智大藥房連鎖有限公司) ("Zhongzhi Chain Pharmacies") for a term expiring on 14 November 2041 for commercial use.

2. Pursuant to five Real Estate Title Certificates (房地產權證), Yue Fang Di Zheng Zi Nos. C2590420 to C2590424 (粵房地證字第C2590420號至C2590424號), the property with a total GFA of 634.44 sq.m. is legally owned by Zhongzhi Chain Pharmacies.

3. Pursuant to a Lease Contract dated in June 2013, a portion of the property with a GFA of 45 sq.m. is leased to an independent third party for a term of 3 years expiring on 14 June 2016, at monthly rents of RMB3,000 for the first year, RMB3,300 for the second year and RMB3,630 for the third year, exclusive of relevant expenses.

4. The opinion of the PRC Legal Advisor to the Group contains, *inter alia*, the following:

   a. The land use rights and building ownership rights of the property are legally vested in Zhongzhi Chain Pharmacies and Zhongzhi Chain Pharmacies is entitled to occupy, use, transfer, lease, mortgage and dispose of the property freely in the market; and

   b. The property is not subject to any mortgage, seizures, freeze, other kinds of limitations of estate interest, existence of the third party's interest or non-compliance of the PRC laws regarding the use of the property.

5. Zhongzhi Chain Pharmacies is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 May 2015
				RMB
4.	Various residential units located at Phase III of Health Station, Torch Development Zone, Zhongshan, Guangdong province, The PRC	The property comprises various residential units of a medium-rise residential building completed in 2000s. The total gross floor area ("GFA") of the property is approximately 1,600.022 sq.m.	The property is occupied by the Group for dormitory purpose.	No Commercial Value

Notes:

1. Pursuant to four Sale and Purchase Contracts, dated 3 September 2003, 3 May 2004 and 27 May 2004 respectively, the property was contracted to be purchased by Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") at a total consideration of RMB1,502,842.8.

2. For the property with a total GFA of 1,600.022 sq.m., we have not been provided with any title certificates. In the course of our valuation, we have attributed no commercial value to the property as relevant title certificates of the property have not been obtained.

3. The opinion of the PRC Legal Advisor to the Group contains, *inter alia*, the following:

   Zhongzhi Pharmaceutical is entitled to occupy and use the property.

4. Zhongzhi Pharmaceutical is a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group II — Property held for future development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 May 2015
				RMB
5.	2 land parcels located at the junction of Guangji Xi Road and Kangtai Road, Torch Development Zone, Zhongshan, Guangdong province, The PRC	The property comprises 2 land parcels with a total site area of approximately 7,069.9 sq.m. The land use rights of the property have been granted for terms with the latest one expiring on 29 July 2048 for industrial use.	The property is vacant.	4,200,000

Notes:

1. Pursuant to a State-owned Land Use Rights Transfer Contract (國有土地使用權轉讓合同書), dated 8 May 2005, the land use rights of the property were contracted to be granted to Zhongshan Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) ("Zhongzhi Pharmaceutical") at a land premium of RMB1,696,000 for industrial and ancillary uses.

2. Pursuant to two State-owned Land Use Rights Certificates (國有土地使用證), Zhong Fu Guo Yong (2005) Nos. 150633 and 150595 (中府國用(2005)第150633號及150595號), the land use rights of the property with a total site area of 7,069.9 sq.m. have been granted to Zhongzhi Pharmaceutical for terms with the latest one expiring on 29 July 2048 for industrial use.

3. The opinion of the PRC Legal Advisor to the Group contains, *inter alia*, the following:

   a. The land use rights of the property are legally vested in Zhongzhi Pharmaceutical and Zhongzhi Pharmaceutical is entitled to occupy, use, transfer, lease, mortgage and dispose of the property freely in the market;

   b. Pursuant to two Maximum Amount Mortgage Contracts, Nos. 2012 Di Zi 26 and 27, both dated 27 February 2012, the land use rights of the property is subject to a mortgage in favour of China Construction Bank, Zhongshan Branch; and

   c. The property is not subject to any seizures, freeze, other kinds of limitations of estate interest, existence of the third party's interest or non-compliance of the PRC laws regarding the use of the property.

4. Zhongzhi Pharmaceutical is a wholly-owned subsidiary of the Company.

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 12 September 2014 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and the Amended and Restated Articles of Association (**Articles**).

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 8 June 2015. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *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.

(b) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the 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 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.

(ii) *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 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.

(iii) *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

(iv) *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.

(v) *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:

(aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any 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

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares 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.

(vi) *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.

(vii) *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 lodgment 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:

(aa) 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;

(bb) 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;

(cc) 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;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;

(gg) 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

(hh) 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.

(viii) *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 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.

(ix) *Register of Directors and officers*

Pursuant to the 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.

(x) *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.

(c) 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.

(d) Variation of rights of existing shares or classes of shares

Subject to the 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.

(e) 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 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.

(f) 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 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.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting 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, and 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 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.

(h) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(i) 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 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 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.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting of the Company 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 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:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% of the total voting rights at the meeting of all 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:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of Directors in place of those retiring;

(dd) the appointment of auditors;

(ee) the fixing of the remuneration of the Directors and of the auditors;

(ff) 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

(gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(k) Transfer of shares

Subject to the 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.

(l) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable 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.

(m) 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.

(n) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect 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

(ii) 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:

(aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by 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 subsequently declared 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.

(o) 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 appointor or of his attorney duly authorised in writing, or if the appointor 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.

(p) 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.

(q) Inspection of corporate records

Members of the Company have no general right under the 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.

(r) 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.

(s) 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(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, 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

(ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, 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 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.

(u) 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:

(i) 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;

(ii) upon the expiry of the 12 years and 3 months period (being the 3 months' notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and

(iii) the Company has caused an advertisement to be published in accordance with the rules of the 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.

(v) Subscription rights reserve

Pursuant to the Articles, provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of 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 12 September 2014 subject to the 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 Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) 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.

(b) Share capital

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount 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 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:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(iii) any manner provided in section 37 of the Companies Law;

(iv) writing-off the preliminary expenses of the company; and

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the 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 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.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and 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.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so 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 authorised 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 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 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.

(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the 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 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(n) of this Appendix for further details). Section 37A(7)(c) of the 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.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of Foss v. Harbottle and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

(i) an act which is ultra vires the company or illegal;

(ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

(iii) 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.

(g) Disposal of assets

There are no specific restrictions in the 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.

(h) Accounting and auditing requirements

Section 59 of the 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 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 (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(ii) 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

(aa) on or in respect of the shares, debentures or other obligations of the Company; or

(bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of twenty years from 30 September 2014.

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.

(k) 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.

(l) Loans to directors

The 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.

(m) Inspection of corporate records

The members of the company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. The 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.

(o) 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.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the 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.

(q) 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.

(r) 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 Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of Our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 September 2014. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 21 January 2015 and the principal place of business in Hong Kong is at Rooms 2102–2103, China Insurance Group Building, No. 141 Des Voeux Road Central, Central, Hong Kong. Ms. Chow Fung Ling who resides at Flat C, 26th Floor, Block T7, Sky Tower, 38 Sung Wong Toi Road, To Kwa Wan, Kowloon, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the relevant laws of the Cayman Islands and its constitution documents which comprise the Memorandum of Association and the Articles of Association. A summary of the relevant aspects of the Companies Law and certain provisions of the constitution documents are set out in Appendix IV to this [REDACTED].

2. Changes in share capital of our Company

(a) As at the date of incorporation of our Company, the authorised share capital was HK$390,000 divided into 39,000,000 Shares of HK$0.01 each, of which 10,000 shares were issued and allotted fully paid to Cheer Lik at par.

(b) On 2 February 2015, Cheer Lik entered into various share transfer agreements, pursuant to which Cheer Lik transferred 8,052 Shares to Crystal Talent at par, 1,000 Shares to Advance Keypath Global Investments Limited at par, 200 Shares to Metro Joy International Limited at par and 44 Shares to Aces Chess Global Limited at par.

(c) On 8 June 2015, pursuant to the written resolutions of the Shareholders, the authorised share capital of our Company was increased from HK$390,000 to HK$15,600,000 by the creation of an additional of 1,521,000,000 Shares.

Immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK$15,600,000 divided into 1,560,000,000 Shares and the issued share capital of our Company will be HK$[REDACTED] divided into [REDACTED] Shares, all fully paid or credited as fully paid, and [REDACTED] Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of the Shareholders passed on 8 June 2015" in this Appendix and the exercise of the [REDACTED] and any options which may be

granted under the Share Option Scheme, the Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this [REDACTED], there has been no alteration in our Company's share capital since its incorporation.

3. Written resolutions of the Shareholder passed on 8 June 2015

Pursuant to the written resolutions of the Shareholders passed on 8 June 2015, among others:

(a) our Company approved and adopted the Articles, the terms of which are summarised in Appendix IV to this [REDACTED], with effect from the [REDACTED];

(b) the authorised share capital of our Company was increased from HK$390,000 to HK$15,600,000 by the creation of an additional of 1,521,000,000 Shares of HK$0.01 each;

(c) conditional on (a) the Listing Committee granting the approval of the [REDACTED] of, and permission to deal in, the Shares in issue and Shares to be issued as mentioned in this [REDACTED] (including any Shares which may be issued pursuant to the exercise of the [REDACTED] and options which may be granted under the Share Option Scheme); and (b) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise (collectively, the "**Conditions**"):

(i) the [REDACTED] and the [REDACTED] was approved and the Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED] and any Shares which are required to be issued pursuant to the exercise of the [REDACTED];

(ii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant thereto and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;

(iii) conditional on the share premium account of our Company being credited as a result of the [REDACTED], upon the recommendation of the Directors, the sum of HK$[REDACTED], being part of the amount which would then be standing to the credit of the share premium account of our Company be capitalised and applied in paying up in full [REDACTED] Shares to be allotted credited as fully paid at par to holders of Shares whose names appeared on the register of members of our Company at the close of business on 8 June 2015 (or as they may direct) in proportion as nearly as may be without involving fractions to their then existing shareholdings in our Company and the Shares to be allotted and issued pursuant to the resolution shall rank pari passu in all respects with the existing issued Shares (other than the Capitalisation Issue) and our Directors or any committee of the Board were authorised to give effect to the Capitalisation Issue;

(d) conditional upon the fulfillment of the Conditions, a general unconditional mandate was given to the Directors to exercise all the powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares upon the exercise of any subscription rights attached to any warrants or convertible securities or the exercise of the [REDACTED] or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or other similar arrangements or under the [REDACTED] or any scrip dividend schemes in accordance with the Articles or a specific authority granted by the Shareholders in general meeting, Shares or securities or options convertible into Shares and to make and grant offers and agreements which would or might require Shares to be allotted (whether or not such securities or options involve the allotment or issue of Shares during or after the Relevant Period (as defined below)) with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme. Such mandate will remain in effect during the Relevant Period. "Relevant Period" means the period from the date of passing the resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company; or

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting;

(e) conditional upon the fulfillment of the Conditions, a general unconditional mandate was given to the Directors authorising them to exercise all powers of our Company to repurchase Shares listed 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, in accordance with all applicable laws and the requirements of the Listing Rules (or of such other stock exchange), such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate of the nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme, and such mandate to remain in effect during the Relevant Period;

(f) conditional upon the fulfillment of the Conditions, the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by the 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 sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED] but excluding any Shares which may be issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme.

4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the [REDACTED], pursuant to which our Company became the holding company of our Group. The Reorganisation included the following major steps:

Onshore Reorganisation

The onshore part of the Reorganisation consisted of the following major steps:

1. On 15 July 2014, Zhongshan Zhi Ying was established in the PRC as a limited liability company with a registered capital of RMB300,000 which was wholly owned by Mr. Lai. On 29 July 2014, Zhongshan Zhi Ying entered into an equity transfer agreement with Mr. Lai to acquire 80.52% equity interest in Zhongzhi Pharmaceutical at the cash consideration of RMB24,156,000, which was equivalent to the amount of the registered capital as represented by the percentage of equity interest of Mr. Lai in Zhongzhi Pharmaceutical.

2. On 15 July 2014, Zhongshan Rui Qi was established in the PRC as a limited liability company with a registered capital of RMB500,000 which was wholly owned by Mr. Luo. On 29 July 2014, Zhongshan Rui Qi entered into an equity transfer agreement with Mr. Luo to acquire 0.44% equity interest in Zhongzhi Pharmaceutical at the cash consideration of RMB132,000, which was equivalent to the amount of the registered capital as represented by the percentage of equity interest of Mr. Luo in Zhongzhi Pharmaceutical.

   As a result, Zhongzhi Pharmaceutical was owned as to 80.52%, 7.04%, 10%, 2% and 0.44% by Zhongshan Zhi Ying, Mrs. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Zhongshan Rui Qi respectively.

3. Under the applicable PRC laws and regulations, foreign investors are prohibited from holding any equity interest in Zhongzhi Herb Pieces. On 31 August 2014, Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo entered into various equity transfer agreements with Zhongzhi Pharmaceutical to acquire 87.56%, 10%, 2% and 0.44% equity interest in Zhongzhi Herb Pieces respectively at the consideration of approximately RMB7,693,000, RMB879,000, RMB176,000 and RMB39,000 respectively which were determined with reference to the valuation conducted by an independent valuer who valued Zhongzhi Herb Pieces at RMB8,787,000 as at 31 July 2014. The acquisitions were legally completed on 22 September 2014.

4. On 31 August 2014, all the agreements constituting the Contractual Arrangements were entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces, Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo. Please refer to the "Contractual Arrangements" section in this [REDACTED] for further details.

Offshore Reorganisation

The offshore part of the Reorganisation consisted of the following major steps:

1. On 2 January 2014, Cheer Lik was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued to Mrs. Lai at par.

2. On 2 January 2014, Metro Joy International Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, of which 53 shares were allotted fully and issued paid to Mr. Wen at par and 47 shares were allotted and issued fully paid to Ms. Zhang at par.

3. On 25 July 2014, Crystal Talent was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued to Mr. Lai at par.

4. On 25 July 2014, Advance Keypath Global Investments Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued to Ms. Mou at par. In September 2014, Advance Keypath Global Investments Limited has undergone capital reorganisation to the effect that the authorised share capital was changed to US$500 divided into 500,000 shares of US$0.001 each. Mr. Lai, Ms. Mou, Mr. Cao and 18 present/former employees of the Group, all being shareholders of Zhongshan Yu Xin, were introduced to Advance Keypath Global Investments Limited. As at the Latest Practicable Date, there were a total of 21 shareholders and their respective shareholdings are as follows:

Nos.	**Shareholders** *(Note 1)*	**Number of Issued shares**	**Percentage of shareholding in Advance Keypath Global Investments Limited/ Zhongshan Yu Xin** *(Note 2)*
1	Mr. Lai	21,518	21.518%
2	Ms. Mou	14,808	14.808%
3	Mr. Cao	4,231	4.231%
4	Ms. Jiang Mei Fang (姜梅芳)	12,693	12.693%
5	Mr. Chen Jiong (陳炯)	2,115	2.115%
6	Mr. Tang Lin (唐琳)	2,115	2.115%
7	Ms. Li Shu Mei (李淑梅)	4,231	4.231%
8	Mr. Cheng Jin Le (成金樂)	16,923	16.923%
9	Mr. Lai Feng Sheng (賴逢勝)	3,808	3.808%
10	Mr. Qiu Zhi Min (邱志敏)	2,962	2.962%
11	Ms. Zhang Yu Xiong (張玉雄)	2,115	2.115%
12	Mr. He Jin Chang (何金昌)	2,115	2.115%
13	Ms. Yang He E (楊合娥)	1,396	1.396%
14	Ms. Gong Bao Lian (龔寶蓮)	3,512	3.512%
15	Mr. Lin Wei Jiu (林偉就)	1,396	1.396%
16	Mr. Qiao Wei Lin (喬衛林)	677	0.677%
17	Mr. Zhu Guo Sheng (朱國勝)	677	0.677%
18	Mr. He Gui Quan (何貴全)	677	0.677%
19	Mr. Shu She Ping (舒設平)	677	0.677%
20	Mr. Liang Xue Zhi (梁學志)	677	0.677%
21	Mr. Cai Hai Yu (蔡海育)	677	0.677%
Total		100,000	100%

Note 1: Mr. Lai, Ms. Mou and Mr. Cao are the executive Directors. Ms. Li Shu Mei was an employee of the Group but has ceased employment since August 2012. The other 17 shareholders of Advance Keypath Global Investments Limited are existing employees of the Group as at the Latest Practicable Date, Ms. Jiang Mei Fang, Mr. Chen Jiong and Mr. Tang Lin are senior management of our Group.

Note 2: The shareholders and shareholding structure of Advance Keypath Global Investments Limited and Zhongshan Yu Xin are the same.

5. On 25 July 2014, Aces Chess Global Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued fully paid to Mr. Luo at par.

6. On 1 August 2014, Grant Talent was incorporated in Hong Kong as a limited liability company with a fully paid up issued share capital of HK$1 registered under the name of the initial subscriber, and the same was transferred to Mrs. Lai on 25 August 2014.

7. On 12 September 2014, our Company was incorporated in the Cayman Islands with limited liability. At the time of incorporation, our Company had an authorised share capital of HK$390,000 divided into 39,000,000 Shares of HK$0.01 of which 10,000 Shares were allotted and issued fully paid to Cheer Lik at par.

8. On 16 September 2014, Windom Talent Company Limited was incorporated in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, and one subscriber share was allotted and issued fully paid to our Company at par.

9. On 14 October 2014, Windom Talent Company Limited acquired from Mrs. Lai and became the shareholder of the entire issued share capital of Grant Talent at the consideration of HK$1 and Grant Talent became a wholly owned subsidiary of Windom Talent Company Limited.

10. On 1 December 2014, Grant Talent entered into an equity transfer agreement with Mrs. Lai to acquire 7.04% equity interest in Zhongzhi Pharmaceutical at the cash consideration of approximately RMB6,309,000, which was determined with reference to the valuation as conducted by an independent valuer who valued Zhongzhi Pharmaceutical at RMB89,610,000 as at 30 September 2014. Such transfer has been approved by the Department of Commerce of Guangdong Province* （廣東省商務廳）. The acquisition was legally completed on 19 January 2015.

11. On 2 February 2015, each of Crystal Talent, Advance Keypath Global Investments Limited, Metro Joy International Limited and Aces Chess Global Limited entered into a share transfer agreement with Cheer Lik, to acquire from Cheer Lik at par 8,052 Shares, 1,000 Shares, 200 Shares and 44 Shares respectively. As a result, our Company was owned as to 80.52%, 7.04%, 10%, 2% and 0.44% by Crystal Talent, Cheer Lik, Advance Keypath Global Investments Limited, Metro Joy International Limited and Aces Chess Global Limited respectively.

12. Various equity transfer agreements were entered into by Grant Talent with Zhongshan Zhi Ying, Zhongshan Yu Xin, Guangdong Jun Ke and Zhongshan Rui Qi to acquire their respective equity interests of 80.52%, 10%, 2% and 0.44% in Zhongzhi Pharmaceutical at the cash consideration of approximately RMB72,154,000, RMB8,961,000, RMB1,792,000 and RMB394,000 respectively, which were determined with reference to the valuation as conducted by an independent valuer who valued Zhongzhi Pharmaceutical at RMB89,610,000 as at 30 September 2014. On 2 February 2015, such transfers were approved by the Department of Commerce of Guangdong Province* (廣東省商務廳) and the same were legally completed on 6 February 2015 when the new business licence of Zhongzhi Pharmaceutical was issued. Our PRC Legal Advisors have confirmed that our Group has obtained the necessary consent from the relevant government authority in respect of the transfers. As a result, Zhongzhi Pharmaceutical became a wholly owned subsidiary of Grant Talent.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report, the text of which is set out in Appendix I to this [REDACTED].

Save as disclosed in the paragraph headed "Corporate Reorganisation" above, there has been no other change to the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this [REDACTED].

6. Repurchase by our Company of its own securities

This section includes information required by the Stock Exchange to be included in this [REDACTED] concerning the repurchase by our Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) *Shareholders' approval*

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions of the Shareholders passed on 8 June 2015, a general unconditional mandate (i.e. the Repurchase Mandate) was given to the Directors authorising the Directors to exercise all powers of our Company to purchase Shares [REDACTED] on the Stock Exchange, or any other stock exchange on which the Shares may be [REDACTED] and recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate of the nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the [REDACTED] but excluding any Share which may be issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held, or when the Repurchase Mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum of Association and the Articles and the applicable laws of the Cayman Islands and the Listing Rules. A company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Under the Cayman Islands law, any repurchases by our Company may be made out of profits of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Memorandum of Association and the Articles and subject to the Companies Law, out of capital

and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account or, if authorised by the Memorandum of Association and the Articles and subject to the Companies Law, out of capital.

(iii) *Connected parties*

The Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "connected person", which includes a Director, chief executive or substantial Shareholder of our Company or any of the subsidiaries or an associate of any of them and a connected person shall not knowingly sell Shares to our Company.

(b) ***Reasons for repurchases***

The Directors believe that it is in the best interests of our Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit our Company and the Shareholders.

(c) ***Exercise of the Repurchase Mandate***

Exercise in full of the Repurchase Mandate, on the basis of [REDACTED] Shares in issue immediately after completion of the Capitalisation Issue and [REDACTED], but not taking into account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme, could accordingly result in up to [REDACTED] Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) ***Funding of repurchase***

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Memorandum of Association and Articles, the Listing Rules, the Companies Law and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this [REDACTED] and taking into account the current working capital position of our Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this [REDACTED]. The

Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for our Group.

(e) ***General***

Under the Listing Rules, shares proposed to be repurchased by a company must be fully paid-up.

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Shares to our Company or our subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, our Articles and the applicable laws of the Cayman Islands.

If as a result of a repurchase of the Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, the Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER 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 members of our Group within the two years preceding the date of this [REDACTED] and are or may be material:

(a) an equity transfer agreement dated 31 August 2014 entered into between Zhongzhi Pharmaceutical and Mr. Lai pursuant to which Zhongzhi Pharmaceutical agreed to transfer 87.56% equity interest in Zhongzhi Herb Pieces to Mr. Lai at the consideration of RMB7,692,714.42;

(b) an equity transfer agreement dated 31 August 2014 entered into between Zhongzhi Pharmaceutical and Zhongshan Yu Xin pursuant to which Zhongzhi Pharmaceutical agreed to transfer 10% equity interest in Zhongzhi Herb Pieces to Zhongshan Yu Xin at the consideration of RMB878,564.92;

(c) an equity transfer agreement dated 31 August 2014 entered into between Zhongzhi Pharmaceutical and Guangdong Jun Ke pursuant to which Zhongzhi Pharmaceutical agreed to transfer 2% equity interest in Zhongzhi Herb Pieces to Guangdong Jun Ke at the consideration of RMB175,712.98;

(d) an equity transfer agreement dated 31 August 2014 entered into between Zhongzhi Pharmaceutical and Mr. Luo pursuant to which Zhongzhi Pharmaceutical agreed to transfer 0.44% equity interest in Zhongzhi Herb Pieces to Mr. Luo at the consideration of RMB38,656.86;

(e) the Operation Services Agreement dated 31 August 2014 entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders pursuant to which Zhongzhi Pharmaceutical was engaged exclusively to provide Zhongzhi Herb Pieces with, *inter alia*, management and consultancy services in consideration of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical;

(f) the Call Option Agreement dated 31 August 2014 entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders pursuant to which the Registered Shareholders at nil consideration granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any part of their equity interests in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price and to the extent permitted by the applicable PRC laws and regulations;

(g) the Equity Pledge Agreement dated 31 August 2014 entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders pursuant to which the Registered Shareholders pledged all their respective equity interests in Zhongzhi Herb Pieces (together with the rights derived therefrom) in favour of Zhongzhi Pharmaceutical as security for the performance of all the contractual obligations of Zhongzhi Herb Pieces and the Registered Shareholders under the Operation Services Agreement (as described in item (e)), Call Option Agreement (as described in item (f)), Power of Attorney (as described in item (h)) and Exclusive Intellectual Property Purchase Agreement (as described in item (i));

(h) the Power of Attorney dated 31 August 2014 executed by the Registered Shareholders who at nil consideration appointed Zhongzhi Pharmaceutical and/or its nominee(s) as their attorney to exercise the shareholders' rights in Zhongzhi Herb Pieces by Zhongzhi Pharmaceutical;

(i) the Exclusive Intellectual Property Purchase Agreement dated 31 August 2014 entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders pursuant to which Zhongzhi Herb Pieces and the Registered Shareholders granted an irrevocable and exclusive option to Zhongzhi Pharmaceutical to purchase all or any of the intellectual property that Zhonghi Herb Pieces has by Zhongzhi Pharmaceutical itself or through its nominee(s) at the lowest price and to the extent permitted by the applicable PRC laws and regulations;

(j) a supplemental agreement to the Contractual Arrangements dated 31 August 2014 entered into between Zhongzhi Pharmaceutical, Zhongzhi Herb Pieces and the Registered Shareholders which provide for, *inter alia*, the operation of the Contractual Arrangements in the event of termination of the [REDACTED] exercise;

(k) a sale and purchase agreement dated 14 October 2014 entered into between Windom Talent Company Limited and Mrs. Lai pursuant to which Mrs. Lai agreed to transfer one share of Grant Talent to Windom Talent Company Limited, which represents the entire issued share capital of Grant Talent, at the consideration of HK$1;

(l) an equity transfer agreement dated 1 December 2014 entered into between Grant Talent and Mrs. Lai pursuant to which Mrs. Lai agreed to transfer 7.04% equity interest in Zhongzhi Pharmaceutical to Grant Talent at the cash consideration of RMB6,308,541.39;

(m) an equity transfer agreement dated 21 January 2015 entered into between Zhongshan Zhi Ying Capital Investment Limited* （中山市智穎股權投資有限公司）and Grant Talent pursuant to which Zhongshan Zhi Ying Capital Investment Limited* （中山市智穎股權投資有限公司）agreed to transfer 80.52% equity interest in Zhongzhi Pharmaceutical to Grant Talent at the cash consideration of RMB72,153,942.13;

(n) an equity transfer agreement dated 21 January 2015 entered into between Zhongshan Yu Xin and Grant Talent pursuant to which Zhongshan Yu Xin agreed to transfer 10% equity interest in Zhongzhi Pharmaceutical to Grant Talent at the cash consideration of RMB8,960,996.29;

(o) an equity transfer agreement dated 21 January 2015 entered into between Guangdong Jun Ke and Grant Talent pursuant to which Guangdong Jun Ke agreed to transfer 2% equity interest in Zhongzhi Pharmaceutical to Grant Talent at the cash consideration of RMB1,792,199.26;

(p) an equity transfer agreement dated 21 January 2015 entered into between Zhongshan Rui Qi Investment Management Limited* （中山市瑞琪投資管理有限公司）and Grant Talent pursuant to which Zhongshan Rui Qi Investment Management Limited* （中山市瑞琪投資管理有限公司）agreed to transfer 0.44% equity interest in Zhongzhi Pharmaceutical to Grant Talent at the cash consideration of RMB394,283.84;

(q) the Non-competition Deed;

(r) a deed of indemnity relating to the [REDACTED] of [REDACTED] Shares in the Company dated 8 June 2015 executed by the Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries) containing the indemnities referred to in the paragraph headed "Tax and other indemnities" in this Appendix;

(s) an undertaking dated 26 June 2015 made by Mr. Lai to our Company in relation to, *inter alia*, the Contractual Arrangements. For details of this undertaking, please refer to the paragraph headed "Contractual Arrangements — Potential measures to maintain control over and receive economic benefits from Zhongzhi Herb Pieces" in this [REDACTED];

(t) an undertaking dated 26 June 2015 made by our Company to the Stock Exchange in relation to, *inter alia*, the Contractual Arrangements. For details of this undertaking, please refer to the paragraph headed "Contractual Arrangements — Potential measures to maintain control over and receive economic benefits from Zhongzhi Herb Pieces" in this [REDACTED];

(u) a cornerstone investment agreement dated 29 June 2015 between, among others, Zhongrong International Trust Co., Ltd.* (中融國際信託有限公司) and our Company pursuant to which Zhongrong International Trust Co., Ltd.* (中融國際信託有限公司) agreed to subscribe at the [REDACTED] for such number of [REDACTED] that may be purchased with an aggregate amount equal to the Hong Kong dollar equivalent of US$15 million; and

(v) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

Trademark

(a) As at the Latest Practicable Date, our Group owned, or had registered (as the case may be) the following trademarks in Hong Kong which we believe are material to our business:

Trademark	Registered Owner	Class *(note)*	Registration Number	Registration Date	Expiry Date
	Zhongzhi Pharmaceutical	5	301919692	18 May 2011	17 May 2021
	Honeson Pharmaceutical	5	301633365	8 June 2010	7 June 2020
		30	301633347	8 June 2010	7 June 2020
		35	301633356	8 June 2010	7 June 2020

(b) As at the Latest Practicable Date, our Group has registered the following trademarks in the PRC which we believe are material to our business:

Trademark	Registered Owner	Class *(note)*	Registration Number	Registration Date	Expiry Date
	Zhongzhi Pharmaceutical	5	3666848	21 April 2008	20 April 2018
	Zhongzhi Pharmaceutical	5	3666840	14 December 2005	13 December 2015
	Zhongzhi Pharmaceutical	5	8845807	28 November 2011	27 November 2021
	Zhongzhi Pharmaceutical	5	6099683	14 February 2010	13 February 2020
ZEUS	Zhongzhi Pharmaceutical	5	10294357	14 February 2013	13 February 2023
	Honeson Pharmaceutical	5	6356779	28 March 2010	27 March 2020
		30	8372713	28 June 2011	27 June 2021
		35	8372732	14 July 2011	13 July 2021
	Zhongzhi Pharmaceutical	35	13015684	7 January 2015	6 January 2025

Trademark	Registered Owner	Class *(note)*	Registration Number	Registration Date	Expiry Date
	Zhongzhi Pharmaceutical	35	11993702	21 June 2014	20 June 2024
	Zhongzhi Pharmaceutical	35	12210720	7 August 2014	6 August 2024

Note:

Class 5 — Pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.

Class 30 — Coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastry and confectionery; edible ices; sugar, honey, treacle; yeast, baking-powder; salt; mustard; vinegar, sauces (condiments); spices; ice.

Class 35 — Advertising; business management; business administration; office functions.

Patent

(a) As at the Latest Practicable Date, our Group has registered the following patents with the State Intellectual Property Bureau in the PRC which we believe are material to our business:

Patent	Registered Owner	Type	Patent Number	Date of Application	Expiry Date
A processing method of traditional Chinese herbs broken wall powder (一種中藥材破壁粉的加工方法)	Zhongzhi Pharmaceutical	Invention Patent (發明專利)	ZL200610122171.7	18 September 2006	18 September 2026
A preparation method of cough medicine (一種克咳製劑的製備方法)	Zhongzhi Pharmaceutical	Invention Patent (發明專利)	ZL201110147491.9	2 June 2011	2 June 2031
A traditional Chinese medicinal Dangshen and Milkvetch Root Oral Solution with functions of invigorating and supporting body resistance (一種補氣扶正的中藥製劑參芪口服液)	Zhongzhi Pharmaceutical	Invention Patent (發明專利)	ZL201110390621.1	30 November 2011	30 November 2031

(b) As at the Latest Practicable Date, our Group has registered the following patent with the Intellectual Property Department of Hong Kong which we believe is material to our business:

Patent	Registered Owner	Type	Patent Number	Date of Application	Expiry Date
A kind of Shiqi Waigan traditional Chinese medicinal tablets (一種石歧外感中藥片劑)	Zhongzhi Pharmaceutical	Standard Patent (標準專利)	HK1153131	12 November 2010	12 November 2030

Domain names

As at the Latest Practicable Date, our Group has registered the following domain names:

Domain Name	1st Registration Date	Expiry Date
zeus.cn	8 March 2008	17 March 2023
zzdyf.cn	29 July 2010	29 July 2020

Copyrights

As at the Latest Practicable Date, our Group has registered the copyright of Zeus Chinese Medicine Fingerprint Quality Control Database System (Abbreviated Form: ZEUSys)* (中智中藥指紋圖譜質量控制數據庫系統 (簡稱：ZEUSys) V1.0 jointly owned by Zhongzhi Pharmaceutical and Central South University* (中南大學) with the National Copyright Administration of the PRC.

C. DISCLOSURE OF INTEREST

1. Interests and short positions of the Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme), the interests and short positions of the Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or any of the associated corporations (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 (including any interests which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to

therein, or will be required, or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange, will be as follows:

(a) ***Long position in the Shares***

Name of Director	Interest in a controlled corporation	Family interest	Total interest	Approximate percentage of the issued share capital of our Company upon [REDACTED]
	Number of Shares	*Number of Shares*	*Number of Shares*	
Mr. Lai *(Note 1)*	[REDACTED] *(Note 2)*	[REDACTED] *(Note 3)*	[REDACTED]	[REDACTED]
Mrs. Lai	[REDACTED] *(Note 3)*	[REDACTED] *(Note 2)*	[REDACTED]	[REDACTED]

Note 1: Mr. Lai is personally interested in [REDACTED] shareholding interest in Advance Keypath Global Investments Limited which in turn is interested in [REDACTED] shareholding in the Company upon [REDACTED].

Note 2: Crystal Talent, which will hold [REDACTED] Shares of our Company upon [REDACTED], is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai. Accordingly, each of Mr. Lai and Mrs. Lai is deemed to be interested in the Shares held by Crystal Talent under the SFO.

Note 3: Cheer Lik, which will hold [REDACTED] Shares of our Company upon [REDACTED], is 100% beneficially owned by Mrs. Lai. As Mr. Lai is the spouse of Mrs. Lai, Mr. Lai is deemed to be interested in the shares of Cheer Lik held by Mrs. Lai. Accordingly, each of Mrs. Lai and Mr. Lai is deemed to be interested in the Shares held by Cheek Lik under the SFO.

(b) ***Long position in Crystal Talent, the associated corporation of our Company***

Name of Director	Capacity/Nature of Interest	Percentage of the issued share capital of associated corporations
Mr. Lai	Beneficial owner	100%
Mrs. Lai	Family interest *(Note 1)*	100%

Note 1: Crystal Talent is 100% beneficially owned by Mr. Lai. As Mrs. Lai is the spouse of Mr. Lai, Mrs. Lai is deemed to be interested in the shares of Crystal Talent held by Mr. Lai under the SFO.

2. Interests and short positions of Substantial Shareholders in the Shares, and underlying Shares of our Company

So far as it is known to the Directors, immediately following completion of the Capitalisation Issue and the [REDACTED] (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme), the following persons/entities will have interests or short positions in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Long position in the Shares

Name	Beneficial Interest	Interest in a controlled corporation	Family interest	Total interest	Approximate percentage of issued share capital of our Company upon [REDACTED]
	Number of Shares	*Number of Shares*	*Number of Shares*	*Number of Shares*	
Crystal Talent *(Note 1)*	[REDACTED]	—	—	[REDACTED]	[REDACTED]
Mr. Lai	—	[REDACTED] *(Note 2)*	[REDACTED] *(Note 3)*	[REDACTED]	[REDACTED]
Mrs. Lai	—	[REDACTED] *(Note 4)*	[REDACTED] *(Note 3)*	[REDACTED]	[REDACTED]
Cheer Lik *(Note 5)*	[REDACTED]	—	—	[REDACTED]	[REDACTED]

Note 1: As Crystal Talent is 100% beneficially owned by Mr. Lai and regarded as a Controlling Shareholder, Crystal Talent is deemed to be interested in a total of [REDACTED] Shares, which represent [REDACTED] interest of our Company upon [REDACTED].

Note 2: Crystal Talent will be legally interested in [REDACTED] Shares of our Company upon [REDACTED]. As Crystal Talent is 100% beneficially owned by Mr. Lai, Mr. Lai is deemed to be interested in the Shares held by Crystal Talent under the SFO.

Note 3: Mr. Lai is the spouse of Mrs. Lai. Accordingly, Mr. Lai is deemed to be interested in the Shares in which Mrs. Lai has interest under the SFO and Mrs. Lai is deemed to be interested in the Shares in which Mr. Lai has interest under the SFO.

Note 4: Cheer Lik will be legally interested in [REDACTED] Shares upon [REDACTED]. As Cheer Lik is 100% beneficially owned by Mrs. Lai, Mrs. Lai is deemed to be interested in the Shares held by Cheer Lik under the SFO.

Note 5: As Cheer Lik is 100% beneficially owned by Mrs. Lai and regarded as a Controlling Shareholder, Cheer Lik is deemed to be interested in a total of [REDACTED] Shares, which represent [REDACTED] interest of our Company upon [REDACTED].

3. Particulars of service agreements

Each of the executive Directors has entered into a service contract with our Company for an initial fixed term of three years commencing from the [REDACTED] and shall continue thereafter until terminated by either party by giving to the other party three months' notice in writing at any time after such initial fixed term, provided that our Company may terminate the contract by giving to the Director not less than three months' prior notice in writing at any time after the date of the contract. The appointment shall terminate automatically in the event of the executive Director ceasing to be a Director for whatever reason.

Each of these executive Directors is entitled to the respective director's fee set out below. In addition, each of the executive Directors is also entitled to a discretionary bonus if so recommended by the remuneration committee of our Company and approved by the Board having regard to the operating results of our Group and the performance of the executive Director.

Each of the independent non-executive Directors has entered into a service contract with our Company under which each of them is appointed for a period of three years commencing from the [REDACTED]. Each of the independent non-executive Directors is entitled to a director's fee set out below.

Save as aforesaid, none of the Directors has or is proposed to have a service contract 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)).

4. Directors' remuneration

(a) The aggregate emoluments and benefits paid to the Directors by our Group in respect of the three years ended 31 December 2014 were approximately RMB1,400,000, RMB200,000 and RMB1,000,000, respectively.

(b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to the Directors for the year ending 31 December 2015 would be approximately HK$2,590,000.

(c) Save as disclosed herein, none of the Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2014 (i) as an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group; or (iii) otherwise for services rendered by him in connection with the promotion or formation of our Group.

(d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2014.

(e) Under the arrangements currently proposed, conditional upon the [REDACTED], the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus, granting of share options, or other fringe benefits) payable by our Group to each of the Directors will be as follows:

Executive Directors	**HK$**
Mr. Lai	750,000
Mrs. Lai	300,000
Ms. Mou	500,000
Mr. Cao	500,000
Independent non-executive Directors	
Mr. Ng Kwun Wan	180,000
Mr. Wong Kam Wah	180,000
Mr. Zhou Dai Han	180,000

Such annual salary may be reviewed annually after each year of service during the term of the service contract by the remuneration committee of our Company. Any adjustment of salary must be recommended by the remuneration committee and approved by the Board.

(f) Each of the executive Directors is entitled to reimbursement for all reasonable expenses properly incurred in the performance of his duties.

5. Fees or commission received

Save as disclosed in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Commissions and expenses" in this [REDACTED], none of the Directors or the experts named in the paragraph headed "Qualifications of experts" in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this [REDACTED].

6. Related party transactions

Details of the related party transactions during the two years preceding the date of this [REDACTED] are set out under Note 30 to the Accountants' Report set out in Appendix I to this [REDACTED], and the "Continuing Connected Transactions" section in this [REDACTED].

7. Disclaimers

Save as disclosed in this [REDACTED]:

(a) there are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between the Directors and any member of our Group;

(b) none of the Directors or the experts named in the paragraph headed "Qualifications of experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this [REDACTED], 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 the Directors or the experts named in the paragraph headed "Qualifications of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this [REDACTED] which is significant in relation to the business of our Group taken as a whole;

(d) taking no account of Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme, none of the Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Capitalisation Issue and the [REDACTED], have any interest or short positions in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

(e) none of the Directors or chief executive of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of the associated corporations (within the meaning of the SFO) or any interest which, once the Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange; and

(f) none of the experts referred to under the paragraph headed "Qualifications 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.

D. SHARE OPTION SCHEME

The principal terms of the Share Option Scheme conditionally adopted under the written resolutions of the Shareholder passed on 8 June 2015 are set out below:

1. Purpose of the Share Option Scheme

The Share Option Scheme is an incentive scheme and is established to recognise the contributions that Eligible Participants (as defined below) have made or may make to our Group.

The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in our Company with the view to achieving the following principal objectives:

(a) motivate the Eligible Participants to optimise their performance and efficiency for the benefit of our Group; and

(b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are, will or expected to be beneficial to our Group.

For the purpose of the Share Option Scheme, "Eligible Participants" means any person who satisfies the eligibility criteria in paragraph 2 below.

2. Who may join and basis of eligibility

The Board may at its discretion grant options to:

(i) any Eligible Employees. "**Eligible Employees**" means employees (whether full time or part time, including any executive Director but excluding any non-executive Director) of our Company, any subsidiary or any entity in which our Group holds at least 20% of its issued share capital ("**Invested Entity**");

(ii) any non-executive Directors (including independent non-executive Directors) of our Company, any subsidiary or any Invested Entity;

(iii) any supplier of goods or services to any member of our Group or any Invested Entity;

(iv) any customer of any member of our Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;

(vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;

(vii) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and

(viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement of the development and growth of our Group,

and, for the purposes of the Share Option Scheme, options may be granted to any company wholly owned by one or more Eligible Participants.

The basis of eligibility of any participant to be granted any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

3. Subscription Price of Shares

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to each grantee and shall not be less than the highest of: (i) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of grant of the relevant option, which must be a business day in Hong Kong and a day on which the Stock Exchange is open for the

business of dealing in securities (a "**Trading Day**"); (ii) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five Trading Days immediately preceding the date of grant of the relevant option; and (iii) the nominal value of a Share on the offer date. For the purpose of calculating the exercise price where our Company has been [REDACTED] for less than five Trading Days, the [REDACTED] of the Shares shall be used as the closing price of the Shares for any Trading Days falling within the period before the [REDACTED].

4. Grant of options and acceptance of offers

An offer for the grant of options shall be deemed to have been accepted when our Company receives the letter containing the offer duly signed by the grantee together with a remittance of HK$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of our Company as consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Eligible Participant.

5. Maximum number of Shares

(i) Subject to sub-paragraphs (ii) to (iv) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes shall not, in aggregate, exceed 10% of the Shares in issue as at the [REDACTED] (i.e. [REDACTED] Shares) (the "**Scheme Mandate Limit**") unless approved by the shareholders of our Company pursuant to sub-paragraph (iii) below. Options lapsed in accordance with the terms of the scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

(ii) Subject to sub-paragraphs (iii) and (iv) below, the Scheme Mandate Limit may be renewed by the shareholders of our Company in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by the Shareholders of our Company. Upon such renewal, all options granted under the Share Option Scheme and any other share option schemes of our Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. A circular must be sent to the shareholders of our Company containing such relevant information from time to time as required by the Listing Rules in connection with the general meeting at which their approval is sought.

(iii) Subject to sub-paragraphs (iv) below, the Board may seek separate shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is sought and our Company must issue a circular to the shareholders of our Company containing such relevant information from time to time as required by the Listing Rules in relation to any such proposed grant to such Eligible Participants.

(iv) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group must not, in aggregate, exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes adopted by our Group if such grant will result in the said 30% limit being exceeded.

6. Maximum entitlement of each participant

No option shall be granted to any Eligible Participant which, if exercised in full would result in the total number of the Shares issued and to be issued upon exercise of the options already granted or to be granted to such Eligible Participant under the Share Option Scheme (including exercised, cancelled and outstanding share options) in any 12-month period up to and including the date of such grant exceeding 1% in aggregate of the Shares in issue as at the date of such grant. Any grant of further options above this limit shall be subject to the following requirements:

(i) approval of the Shareholders of our Company at general meeting, with such Eligible Participant and its close associates abstaining from voting;

(ii) a circular in relation to the proposal for such further grant must be sent by our Company to its Shareholders with such information from time to time as required by the Listing Rules;

(iii) the number and terms of the options to be granted to such proposed grantee shall be fixed before the Shareholders' approval mentioned in (i) above; and

(iv) for the purpose of calculating the minimum exercise price for the Shares in respect of the further options proposed to be so granted, the date of board meeting for proposing such grant of further options shall be taken as the date of offer of such options.

7. Requirements on granting options to certain connected persons

Any grant of options to any director, chief executive or substantial shareholder of our Company, or any of their respective associates, must be approved by the independent non-executive Directors (excluding an independent non-executive Director who is a proposed grantee).

Where any grant of options to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of the options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the total number of Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million,

such further grant of options must be approved by the Shareholders of our Company on a poll in a general meeting where all core connected persons of our Company must abstain from voting in favour at such general meeting. Our Company will send a circular to the shareholders containing the information required under the Listing Rules.

8. Restrictions on the time of grant of options

No option shall be granted after inside information has come to the knowledge of our Company until our Company has announced the information. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to announce its results for any year or half-year under the Listing Rules, or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement. No option may be granted during any period of delay in publishing a results announcement. "Inside information" has the meaning defined in the SFO.

The Board may not make any offer to an Eligible Participant who is a Director during the periods or times in which the Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listing Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

9. Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the offer date subject to the provisions of early termination thereof, and provided that the Board may determine the minimum period for which an option has to be held or other restrictions before its exercise.

The grantee shall not exercise an option to the extent that the public float of our Company will be less than 25% (or such higher percentage as required by the Stock Exchange or the Listing Rules) of the issued share capital of our Company immediately after the allotment and issue of the Shares upon such exercise of the option.

10. Performance targets

Save as determined by the Board and provided in the offer of grant of the options, there is no performance target that must be achieved before the options can be exercised.

11. Ranking of Shares

The Shares to be allotted upon the exercise of an option shall be subject to all the provisions of the Articles for the time being in force and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date. Any Share allotted upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered into the register of members of our Company as the holder thereof.

12. Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or enter into any agreement so to do.

13. Rights on cessation of employment

(i) In the event of death of the grantee (being an individual) before exercising the option in full, his personal representatives may exercise the option up to the grantee's entitlement (to the extent exercisable as at the date of his death and not exercised) within the period of 12 months following his death or such longer period as the Board may determine.

(ii) In the event of the grantee who is an Eligible Employee ceasing to be an Eligible Employee for any reason other than his death, or the termination of his employment pursuant to paragraph 18(v), the grantee may exercise the option (to the extent exercisable as at the date of the relevant event and not exercised) within 30 days following such cessation or such longer period as the Board may determine.

14. Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company while an option remains exercisable, and such event arises from, including a capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of capital of our Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to the options so far as unexercised; and/or the exercise price; and/or the method of the options; and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must be made in compliance with the Listing Rules, give a grantee the same proportion of the equity capital as that to which that grantee was previously entitled and shall be made on the basis that the aggregate exercise price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be issued at less than nominal value provided that in such circumstance, the exercise price shall be reduced to the nominal value. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial advisor of our Company or the auditors of our Company must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

15. Rights on a general offer

If a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional, the grantee shall be entitled to exercise the option (to the extent exercisable as at the date on which the general offer becomes or is declared unconditional and not exercised) in full or in part at any time within 14 days after the date on which the offer becomes or is declared unconditional.

16. Rights on winding-up

In the event notice is given by our Company to its shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall forthwith give notice thereof to the

grantee and the grantee shall be entitled to exercise all or any of his/her/its options (to the extent exercisable as at the date of the notice to the grantee and not already exercised) at any time not later than 2 Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting of our Company to consider the winding-up and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

17. Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantee on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme of arrangement, and thereupon the grantee shall be entitled to exercise all or any of his/her option(s) (to the extent which has become exercisable as at the date of the notice to the grantee and not exercised) at any time not later than 2 Trading Days (excluding any period(s) of closure of our Company's share registers) prior to the proposed meeting and our Company shall, as soon as possible and in any event no later than the Trading Day (excluding any period(s) of closure of our Company's share registers) 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.

18. Lapse of options

An option shall lapse and not be exercisable on the earliest of:

(i) the expiry of the option period as set out in paragraph 9 above;

(ii) the expiry of any of the periods referred to in paragraph 13 above;

(iii) subject to paragraph 16 above, the date of the commencement of the winding-up of our Company;

(iv) subject to the scheme becoming effective, the expiry of the period referred to in paragraph 17 above;

(v) the date on which the grantee who is an Eligible Employee ceases to be an Eligible Employee by reason of the summary dismissal or being dismissed for misconduct or other breach of the terms of his employment contract or other contract constituting him an Eligible Employee, or the date on which he begins to appear to be unable to pay or has no reasonable prospect of being able to pay his debts or has become

insolvent or has made any arrangements or composition with his or her creditors generally or on which he has been convicted of any criminal offence involving his or her integrity or honesty, unless otherwise resolved to the contrary by the Board;

(vi) in respect of a grantee other than an Eligible Employee, the date on which the Board shall determine that (i) (aa) such grantee has committed any breach of any contract entered into between such grantee on one part and our Group or any Invested Entity on the other part; or (bb) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (cc) such grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of his/her/its relations with our Group or by any other reason whatsoever; and (ii) the option shall lapse as result of any event specified in sub-paragraph (i) (aa), (bb) or (cc) above, unless otherwise resolved to the contrary by the Board;

(vii) the expiry of any of the periods referred to in paragraph 15 above; and

(viii) the date on which the grantee commits a breach of any terms or conditions attached to the grant of the option, unless otherwise resolved to the contrary by the Board

If the grantee is a company wholly owned by one or more Eligible Participants:

(1) the provisions of paragraphs 13(i) and (ii), 18(v) and (vi) shall apply to the grantee and to the options granted to such grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs 13(i) and (ii), 18(v) and (vi) shall occur with respect to the relevant Eligible Participant; and

(2) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant,

provided that the Board may decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

19. Cancellation of options granted but not yet exercised

The Board shall have the absolute discretion to cancel any options granted at any time if the grantee so agreed provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available but unissued options (excluding the cancelled options) within the limit approved by the Shareholders as mentioned in the Share Option Scheme from time to time.

20. Period of the Share Option Scheme

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years after the adoption date, after which no further options may be issued. Subject to the above, in all other respects, in particular, in respect of Options remaining outstanding, the provisions of the Share Option Scheme shall remain full force and effect.

The Board may impose such terms and conditions of the offer of grant either on a case-by-case basis or generally as are not inconsistent with the Share Option Scheme including but not limited to the minimum period for which an option must be held before it can be exercised.

21. Alteration to the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except those specific provisions relating to matters set out in the Listing Rules (or any other relevant provisions of the Listing Rules from time to time applicable) which cannot be altered to the advantage of grantees or prospective grantees except with the prior approval of the shareholders of our Company in general meeting. No such adjustments shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the grantee as would be required of the shareholders of our Company under the Articles for the time being of our Company for a variation of the rights attached to Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of the Directors or administrators of the Share Option Scheme in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

The amended terms of the Share Option Scheme and/or the options must continue to comply with the relevant provisions of the Listing Rules as may be amended.

Subject to the above paragraphs, the Board may at any time alter, amend or modify the terms and conditions of the Share Option Scheme such that the provisions of the Share Option Scheme would comply with all relevant legal and regulatory requirements in all relevant jurisdictions to the extent as considered necessary by the Board to implement the terms of the Share Option Scheme.

22. Termination to the Share Option Scheme

Our Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event, no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

Options complying with the provisions of the Listing Rules which are granted during the life of the Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

23. Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon (i) the Stock Exchange granting the approval of the [REDACTED] of and permission to deal in, the Shares in issue, the Shares to be issued pursuant to the Capitalisation Issue, the [REDACTED] and any Shares which may fall to be issued pursuant to the exercise of the [REDACTED] and any options under the Share Option Scheme in respect of up to 10% of the Shares in issue as at the [REDACTED]; (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; and (iii) the commencement of dealings in the Shares on the Stock Exchange.

As at the Latest Practicable Date, no option had been granted by our Company under the Share Option Scheme. An application has been made to the Listing Committee of the Stock Exchange for the approval of the [REDACTED] of, and permission to deal in the Shares to be issued and allotted by our Company pursuant to the exercise of options that may be granted under the Share Option Scheme in respect of up to 10% of the Shares in issue as at the [REDACTED].

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

E. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders have, entered into a deed of indemnity in favour of our Company (on its own behalf and as trustee for each member of our Group) referred to in paragraph (r) of the paragraph headed "Summary of material contracts" in this Appendix, pursuant to which the Controlling Shareholders have given indemnities in favour of our Group from and against, among others, (a) any tax liability which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which [REDACTED] becomes unconditional (including but not limited to any tax liability arising from any additional assessment by any tax authority in respect of any member of our Group in relation to the tax years beginning from the respective date of establishment of our members of our Group and ending on the date on which the [REDACTED] becomes unconditional); or (ii) in respect of or in consequence of any act, omission or event occurring or deemed to occur on or before the date on which the [REDACTED] becomes unconditional; and (b) any claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the [REDACTED] becomes unconditional and not disclosed in this [REDACTED]. The Controlling Shareholders will, however, not be liable under the deed of indemnity for taxation to the extent that, among others:

(a) specific provision, reserve or allowance has been made for such taxation liability in the audited combined accounts of any member of our Group for each of the three years ended 31 December 2014; or

(b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the [REDACTED] becomes unconditional; or

(c) any provisions or reserve made for taxation in the audited accounts of our Group or any member of our Group for each of the three years ended 31 December 2014 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied to reduce the Controlling Shareholders' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or

(d) the taxation liability arises in the ordinary course of business of our Group after 31 December 2014 up to and including the date on which the [REDACTED] becomes unconditional.

Provided that the exceptions in paragraph (a), (c) and (d) above shall not apply to any tax liability which might be payable by any member of our Group arising from any additional assessment by any tax authority for the tax years beginning from the respective date of establishment of our members of our Group and ending on the date on which the [REDACTED] becomes unconditional.

In the event that the Controlling Shareholders have indemnified our Group of any tax liability and payment arising from any additional assessment by any tax authority pursuant to the deed of indemnity referred to above, our Company shall disclose such fact and relevant details by way of an announcement immediate after the payment of indemnification by the Controlling Shareholders.

The Controlling Shareholders have further undertaken to indemnify our Group, on a joint and several basis, against any losses or damages incurred or suffered by our Group arising from or in connection with the dispute amongst Predecessor Honeson Pharmaceutical, Western Development Company and Overseas Investment Company, the Civil Judgment No. 13 and the appeal lodged by Western Development Company as referred to in the paragraph headed "Business — Legal proceedings and non-compliance — Legal proceedings in relation to our Group" in this [REDACTED].

The Controlling Shareholders have also undertaken to indemnify our Group, on a joint and several basis, against any costs, expenses, claims liability, penalties, losses or damages incurred or suffered by our Group arising from or in connection with the non-compliances to as referred to in the paragraph headed "Business — Legal proceedings and non-compliance — Non-compliance incidents" in this [REDACTED].

The Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

2. Litigation

As at the Latest Practicable Date, to the best of the Directors' knowledge and save as disclosed in this [REDACTED], there is no litigation or arbitration (whether current, pending or threatened) proceedings against any member of our Group that is of material importance or could have a material adverse effect on our Group's financial condition or performance.

3. The Sole Sponsor

The Sole Sponsor has, on behalf of our Company, made an application to the Listing Committee for the [REDACTED] of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and the Shares falling to be issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme in respect of up to 10% of the Shares in issue as at the [REDACTED]. The Sole Sponsor

declared its independence from the Company pursuant to Rule 3A.07 of the Listing Rules and satisfies the independence criteria applicable to the Sponsors set out in Rule 3A.07 of the Listing Rules. The sponsorship fee is approximately HK$5 million.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK$38,300 and are payable by our Company.

5. Promoter

Our Company has no promoter within two years preceding the date of this [REDACTED], no amount or benefit has been paid or given to the promoter in connection with the [REDACTED] or the related transactions described in this [REDACTED].

6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this [REDACTED]:

Name	Qualifications
Guosen Securities (HK) Capital Company Limited	A corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified Public Accountants
BMI Appraisals Limited	Independent property valuer
King & Wood Mallesons	Legal advisors to our Company on PRC law
Appleby	Cayman Islands attorneys-at-law
Ipsos Hong Kong Limited	Industry consultant

7. Consents of experts

Each of the parties listed in the paragraph headed "Qualifications of experts" has given and has not withdrawn its written consent to the issue of this [REDACTED] with the inclusion of its letter, report, valuation certificate, opinion and/or references to its name (as the case may be), all of which are dated the date of the [REDACTED], in the form and context in which they respectively appear in the [REDACTED].

8. Binding effect

This [REDACTED] 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.

9. Share Registrar

The register of members of our Company will be maintained in the Cayman Islands by [REDACTED] and a branch register of members of our Company will be maintained in Hong Kong by [REDACTED]. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

10. No material adverse change

The Directors confirm that there has been no material adverse change in the financial prospects of our Company or its subsidiaries since 31 December 2014 (being the date to which the latest audited financial statements of our Company were made up).

11. Miscellaneous

Save as disclosed herein:

(a) within the two years immediately preceding the date of this [REDACTED]:

(i) no share or loan capital of our Company or any of its subsidiaries has been issued, agree to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;

(iii) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares; and

(iv) no founder, management or deferred shares of our Company have been issued or agreed to be issued.

(b) no share, warrant or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(c) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;

(d) all necessary arrangements have been made enabling the Shares to be admitted into [REDACTED];

(e) the Directors confirm that none of them shall be required to hold any shares by way of qualification and none of them has any interest in the promotion of our Company; and

(f) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this [REDACTED].

12. Bilingual [REDACTED]

The English language and Chinese language versions of this [REDACTED] are being published separately, in reliance upon the exemption provided in section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies, between the English language version and the Chinese language version, the English language version shall prevail.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this [REDACTED] delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of each of the [REDACTED];

(b) written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this [REDACTED]; and

(c) copies of each of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this [REDACTED].

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Hastings & Co. at 5/F, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this [REDACTED]:

(1) the Memorandum and the Articles of Association of our Company;

(2) the Accountants' Report prepared by Ernst & Young, the text of which is set out in Appendix I to this [REDACTED];

(3) the audited combined financial statements of our Company for the three financial years ended 31 December 2012, 2013 and 2014;

(4) the letter received from Ernst & Young on the unaudited pro forma financial information, the text of which is set out in Appendix II to this [REDACTED];

(5) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by BMI Appraisals Limited, the texts of which are set out in Appendix III to this [REDACTED];

(6) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this [REDACTED];

(7) the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this [REDACTED];

(8) the letter prepared by Appleby, the legal advisors to our Company as to Cayman Islands Law, summarising certain aspects of the Companies Law referred to in Appendix IV to this [REDACTED];

(9) the legal opinions issued by King & Wood Mallesons, our PRC Legal Advisors, in respect of certain aspects on business operations and property interests of our Group;

(10) the Ipsos Report referred to in the "Industry Overview" section in this [REDACTED];

(11) the service agreements of our Directors referred to in the paragraph headed "Particulars of service agreements" in Appendix V to this [REDACTED];

(12) the Companies Law; and

(13) the rules of the Share Option Scheme.